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From sand dune to science park
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Watergate revisited
Small burglary, big cover-up
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Brazil
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FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY MAY 26 1994 — D8523A

Call by Moscow for new European security order

Russian defence minister Pavel Grachev urged the establishment of a new European security order involving all European nations. In a Brussels speech he urged that the 52-member Conference on Security and Co-operation in Europe be given powers of "permanent leadership and co-ordination" over Nato, the European Union and the Commonwealth of Independent States on security matters. Page 16; **Talks to defuse central European rivalries, Page 2; Editorial Comment, Page 15**

Fund targets Burma: A Hong-Kong based securities company controlled by Malaysian-Chinese entrepreneur Robert Kuok is marketing the first listed investment fund targeted at Burma. Page 16

Credit to Austrian bank cut: Bankers Trust of New York and five other international banks have withdrawn credit lines from Bank für Arbeit und Wirtschaft (Bawag), a leading Austrian bank under investigation for irregular offshore investment practices. Page 17; **Bawag spotlight shifts offshore, Page 18**

UK lottery winner: Camelot, a UK business consortium, won the licence to run the first UK National Lottery for more than 150 years. Page 16; **Camelot draws winning ticket, Page 15**

Japanese drugs companies had sluggish profits for the year to March after antibiotics sales fell in response to a sharply lower number of flu cases in the second half. Page 22; **NSK declines 20% and Japan Tobacco bucks trend, Page 22**

'Mad cow' case suspected in Germany: German authorities have uncovered what they believe could be a third case of BSE or "mad cow disease" in a cow from a farm near Hanover imported from Britain in 1988. Germany recently threatened a unilateral ban on imports of British beef.

Kenya made its currency fully convertible for nearly all transactions, reflecting government confidence that economic and political stability will ensure there is no capital flight. Page 6

Metallgesellschaft shares dropped 15 per cent after the disclosure that the Frankfurt-based group will have to make fresh provisions for newly identified risks arising from its North American oil operations. Page 17

Nokia, telecommunications group, announced plans to raise more than FM2bn ($376m) of new equity in the biggest international share issue by a Finnish company. Page 17

House chairman 'may quit': Lawyers for Democratic Congressman Dan Rostenkowski were reported to have offered his resignation as House ways and means committee chairman in exchange for dropping a federal indictment on expense account offences. Page 7

Brussels points finger at lax EU nations: The European Commission blamed France and Denmark, in addition to several southern European nations, for not doing enough to curb budget deficits and restrain inflation. Page 2

Kentucky win lifts Republicans: The Republicans captured a House of Representatives seat in Kentucky which had voted Democrat for 129 years, raising the party's hopes of gains in the November congressional elections. Page 7

Kumagai Gumi, internationally ambitious Japanese property developer and construction company, reported a 20.56 per cent fall in taxable profits to Y23.56bn ($224.4m) following a decline in capital investment by Japanese industrial customers. Page 21

Guatemala crisis: The Guatemalan government is facing a fiscal crisis and will probably fail to meet conditions imposed by official creditors. Page 7

Boeing, world's largest commercial aircraft manufacturer, is stepping up efforts to enter the market for 70-100 seat jets in co-operation with the Japanese and Chinese aircraft industries. Page 8; **Iberia and Lufthansa in talks on closer co-operation, Page 20**

Israel economy 'set to grow by 5%': Israel's central bank predicted the economy would grow at 5 per cent this year despite concern about high inflation and a slowdown in Jewish immigration. Page 6

Mafia suspect discovered: Police arrested Vincenzo Lauretta, alleged head of the Stidda criminal group, Sicily's second-largest Mafia organisation at his home. **Italian justice caught between two revolutions, Page 3**

■ STOCK MARKET INDICES		
FT-SE 100:	3,020.7	(-68.4)
Yield	4.07	
FT-SE Eurotrack 100	1,412.61	(-23.26)
FT-SE-A All-Share	1,525.62	(-2.0%)
Nikkei	20,663.83	(+41.57)
New York: lunchtime		
Dow Jones Ind Ave	3,737.49	(-7.88)
S&P Composite	453.99	(-0.82)
■ US LUNCHTIME RATES		
Federal Funds:	4¼%	
3-mo Treas Bills: Yld	4.273%	
Long Bond	85¾	
Yield	7.417%	
■ LONDON MONEY		
3-mo Interbank	5¼%	(5¼%)
Liffe long gilt future:	Jun 103¾	(Jun104¾)
■ NORTH SEA OIL (Argus)		
Brent 15-day (July)	$16.22	(16.4)
■ Gold		
New York Comex (June)	$385.7	(387.3)
London	$387.45	(386.25)

■ STERLING		
New York lunchtime:		
$	1.5085	
London:		
$	1.5109	(1.5084)
DM	2.4845	(2.4858)
FFr	8.4950	(8.5058)
SFr	2.1186	(2.1236)
Y	157.816	(157.545)
£ Index	80.8	(79.9)
■ DOLLAR		
New York lunchtime:		
DM	1.64625	
FFr	5.6275	
SFr	1.40335	
Y	104.655	
London:		
DM	1.6447	(1.6478)
FFr	5.6257	(5.638)
SFr	1.4023	(1.4081)
Y	104.455	(104.445)
$ Index	65.2	(65.3)
Tokyo close Y 104.72		

Austria	Sch32	Greece	Dr300	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$16	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh13	Singapore	S$4.30
Bulgaria	Lev25.00	Iceland	IKr215	Neth	Fl3.75	Slovak Rp	Sk35.00
Cyprus	C£1.10	India	Rs45	Nigeria	Naira45	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.50	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr18
Egypt	E£5.00	Japan	Y600	Pakistan	Rs40	Switz	SFr3.60
Finland	FM14	Jordan	JD1.50	Philippines	Pes50	Syria	S£50
France	FFr8.50	Kuwait	Fils600	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L30000
						UAE	Dh12.00

Greenspan opposes controls on derivatives

By George Graham in Washington and John Gapper in London

Mr Alan Greenspan, chairman of the Federal Reserve Board, yesterday brushed off calls for new legislation to control derivative financial instruments and warned that intervention could increase risks to the US financial system.

"Remedial legislation relating to derivatives is neither necessary nor desirable at this time," Mr Greenspan told a congressional subcommittee in Washington.

Mr Greenspan said there was a pressing need to overhaul the entire US regulatory structure, but he warned that reforms aimed solely at derivatives could be counterproductive.

Last week, the US General Accounting Office called for measures to strengthen controls on this fast-expanding area of the financial markets. Derivatives, such as swaps and options, are instruments derived from other financial assets or indices.

The GAO warned that the entire financial system could be undermined because of the lack of regulation, but Mr Greenspan highlighted the risk of intervention: "Legislation directed at derivatives is no substitute for broader reform."

In the absence of broader reform such legislation could increase risks in the US financial system "by creating a regulatory regime that is itself ineffective and that diminishes the effectiveness of market discipline."

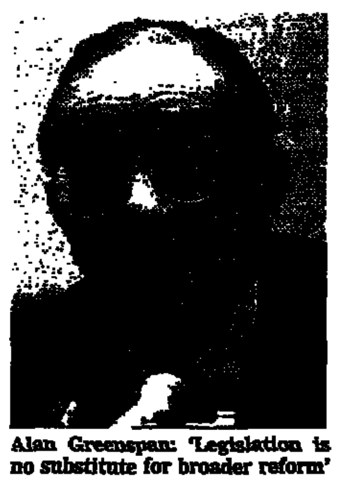
Mr Greenspan's remarks were echoed yesterday by representatives of four US regulatory agencies overseeing banks, securities dealers and futures markets in their testimony in Washington to the House of Representatives subcommittee on telecommunications and finance.

"I'm not prepared to say at this point the sky is falling down, we need to legislate," said Mr Arthur Levitt, chairman of the Securities and Exchange Commission.

Mr Eugene Ludwig, comptroller of the currency, and Mr Andrew Hove, chairman of the Federal Deposit Insurance Corporation, the two other principal federal bank supervisors, as well as Ms Barbara Holum, acting chair of the Commodities and Futures Trading Commission, expressed similar sentiments.

But all five agencies, under pressure from some politicians to act quickly, yesterday outlined the steps already taken to oversee trading in derivatives.

Continued on Page 16
US management urged to improve use of derivatives, Page 23



Alan Greenspan: 'Legislation is no substitute for broader reform'

Bond and equity prices tumble across Europe

Markets decide long run of interest rate cuts is finished

By Our Markets Staff

Bond and equity prices across Europe fell heavily yesterday as markets reached the unwelcome conclusion that a 20-month run of falling interest rates had come to an end.

Prices fell sharply after the Bundesbank called off a planned auction of four-year notes because of insufficient demand from bond market traders, which followed warnings from the bank that further cuts in interest rates were not planned.

At the same time, apprehension returned that the US Federal Reserve might continue to tighten credit policy, despite having lifted its key interest rates only last week.

In the UK, the FT-SE 100 Share Index plummeted in the afternoon as investors flinched at the prospect of upward pressures on interest rates. It closed 68.4 points, or 2.21 per cent, lower at a new 1994 low of 3,020.7.

The CAC-40 index in Paris fell 48.91, or 2.3 per cent, to 2,084.41, while Frankfurt continued to pay for the recent relative strength of the market. The Dax index fell 39.95, or 1.8 per cent, to 2,158.77.

Mr Hans Tietmeyer, president of the Bundesbank, had suggested on Monday that German interest rates might be left unchanged.

Market concerns over this statement were exacerbated yesterday by a relatively small reduction in money rates at the bank's weekly securities repurchase auction, used to inject short-term liquidity into money markets.

The mood soured even more when the Bundesbank called off a planned auction of four-year notes because of insufficient demand from bond market traders who had been disappointed by the outcome of the auction.

"What happened today is an absolute embarrassment for the Bundesbank and it has behaved in an amateurish way," said one analyst in Frankfurt. In his view, there had been enough demand in the market but the Bundesbank was not willing to raise funds at the current high yields.

Prices for the June contract of the German government bond future on Liffe, the London futures and options exchange, fell during trading to the year's low of 93.30 but recovered slightly later to 93.54, down 0.7 point on the day.

The policy-making council of the Bundesbank is due to meet today for its fortnightly discussion of monetary policy but the market does not expect the central bank to announce a change in official interest rates.

UK government bonds also traded near to the year's lows, reaching 103¾ in late trading, down ⅞. Gilts were also depressed by a higher-than-expected price realised at the Bank of England's auction of the government's first convertible gilt since 1987.

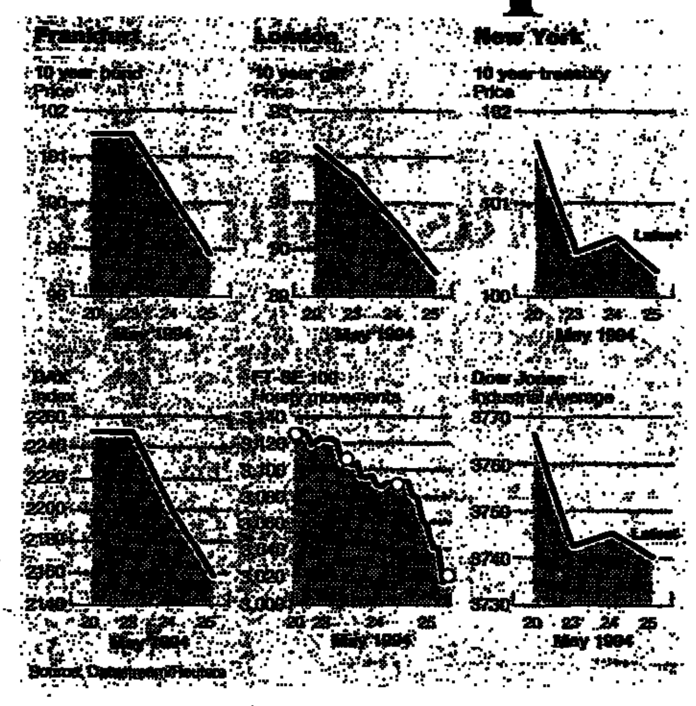
In London, pressure on equity prices came from the stock index futures market where the June contract on the FT-SE 100 fell below 3,000 to a substantial discount against the stock market. A large computer-driven sell-off in stock index futures originated from a US securities house.

UK market strategists expressed highly bearish views at the close, pointing out that the equity market chart forecasters see little support for shares above the Footsie 2,550 level.

There was little response in London to a firm opening on Wall Street after US durable goods orders for April showed a gain of only 0.1 per cent, suggesting less pressure for another hike in US interest rates.

The dollar also came under pressure, prompted by the weaker than expected durable goods orders. The US currency closed in London at DM1.6447, a pfennig down on the intra-day high of DM1.6545.

Concern over German rates increased after a Bundesbank member warned of the "inflation potential" in the growth of German M3 money supply.



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World Stocks, Back P, Section II

India resists IMF call to let rupee appreciate

By Martin Wolf in London

The Indian government is resisting advice from the International Monetary Fund to let the rupee float upwards in response to record private capital inflows into India.

During its annual Article IV consultations, the IMF advised India to let the rupee appreciate, if it could not implement a much sharper than planned cut in the fiscal deficit. But the government, supported by the World Bank, is concerned about the harm a big appreciation might do to exports, which grew by 21 per cent, in US dollars, in the last financial year.

Though not committed to an exchange rate target, the government will resist any substantial appreciation from a rate of close to 31 to the US dollar, at which it has stayed since March 1993.

Senior Indian officials said an appreciation would risk inflicting the "Dutch disease" on the economy – a reference to the way discoveries of natural gas reduced the competitiveness of exports from the Netherlands in the 1970s.

In the financial year ending March 1994, according to the ministry of finance, India received foreign direct investment of about $600m and a portfolio flow of $4bn, $1.5bn of which was from foreign institutional investors, while $2.5bn arrived in response to foreign issues of equity and convertible bonds by Indian firms.

This capital inflow, in addition to what the finance ministry believes will be a small current account surplus, helped produce an increase of $8.7bn in India's foreign exchange reserves during the financial year. Even without holdings of gold, reserves stood at $15.5m at the end of March, equivalent to some seven months of imports.

Along with a fiscal deficit of 7.3 per cent of gross domestic product, the rise in reserves has augmented domestic liquidity. Monetary growth has jumped from 5 per cent in the year to May 1993, to 18 per cent in the year to January 1994. Annual inflation is also running at 11 per cent – high by Indian standards.

In the short run, the government is prepared to accept the reserve accumulation. But it has decided to curb the monetary effects through the imposition of higher cash reserve requirements on the banking system. It has the additional option of trying to sterilise the inflow, via open market operations of the Reserve Bank of India, the central bank.

If the build-up of foreign exchange reserves were to continue, the government might make the terms of non-resident banking deposits less attractive. It might also try to restrict the access of Indian business to foreign capital.

The government began liberalisation of consumer goods in this year's import policy. The build-up of reserves will make it easier to speed up the process, a move recommended by the IMF and World Bank.

Eurotunnel to launch rights issue today at big discount

By Robert Peston in London

Eurotunnel is planning to launch its £850m ($1.3bn) rights issue this morning at a price very close to the minimum which would allow its vital £1.6bn refinancing to take place.

The rights issue price is expected to be about 260p for each Eurotunnel unit. This would be 27 per cent below yesterday's 355p closing market price in London, a significant discount which reflects the uncertainties about the future revenues of the Channel tunnel operator.

The expected rights price is only about 10p above the 250p floor which would permit Eurotunnel to raise sufficient equity finance to cover its pressing financial requirements. The company has authority to issue only 350m new shares.

The rights issue will be Eurotunnel's biggest equity fund raising and one of the biggest cash calls by a UK company.

Investment institutions have been reluctant to underwrite the share offer. Their concern is that all earnings from the tunnel will be swallowed by interest payments on about £8bn of debt until at least 1998 and there will be no dividend until 2003.

Eurotunnel's financial advisers, S. G. Warburg and Banque Indosuez, were able yesterday to start the task of getting commitments from institutions to underwrite the shares, because the company's 220 banks gave formal approval to their £700m portion of the refinancing, more than a week after the deadline. The banks are providing senior debt, or a loan which ranks ahead of all existing facilities.

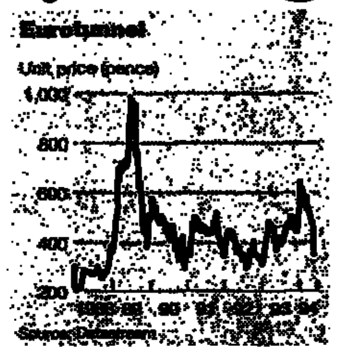
One fund manager said: "Frankly we were not keen to take the underwriting. However, Warburg can be very persuasive."

Brokers said the underwriting challenge was made more difficult by the sharp fall in the stock market, as the FT-SE 100 index fell 68.4 points to close at 3020.7. However, the price of Eurotunnel units, an unusual security twinning UK and French shares, fell only 5p to 355p.

A significant role in supporting the share issue was played by Swiss Banking Corporation, which had provided a commitment to provide primary underwriting for a third of the whole share offer. It yesterday attempted with Warburg and Indosuez to find sub-underwriters, to reduce its exposure.

Without the refinancing, Eurotunnel faced a liquidity crisis, only four years after it last came close to calling in the receivers. By next month, it will have exhausted all its cash reserves.

The costs of completing the tunnel were well above original forecasts, but its difficulties have been compounded by the late start of freight and passenger services, which means revenues in early years of operation will be lower than it hoped.



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Poor April shopping figures hit recovery prospects

German retail sales tumble

By Christopher Parkes in Frankfurt

It was good while it lasted, but the unexpected surge in west German consumer spending which gave the economy a forceful boost in the first quarter came to a sudden stop last month.

The HDE retailers' association yesterday tempered a report of a real 2 per cent rise in sales during March with a warning that "deep red" results for April – not yet ready for release – would squash any hopes that springtime had arrived in the shops sector. Department stores have calculated that real sales tumbled 12 per cent last month.

The respected Ifo economics institute reported on Tuesday that its survey of expectations showed a sharp change of mood among retailers in April after several months of rising optimism. Order plans were being revised downwards as prospects for the next six months dimmed and unsold stocks mounted.

On the same day, the federal authorities announced that new road vehicle registrations in April crashed 24 per cent below March levels and were 16 per cent lower than in the same month last year after three months of growth.

The effects of the winter buying spree are expected significantly to bolster official first-quarter growth figures for west Germany, due in the next two weeks.

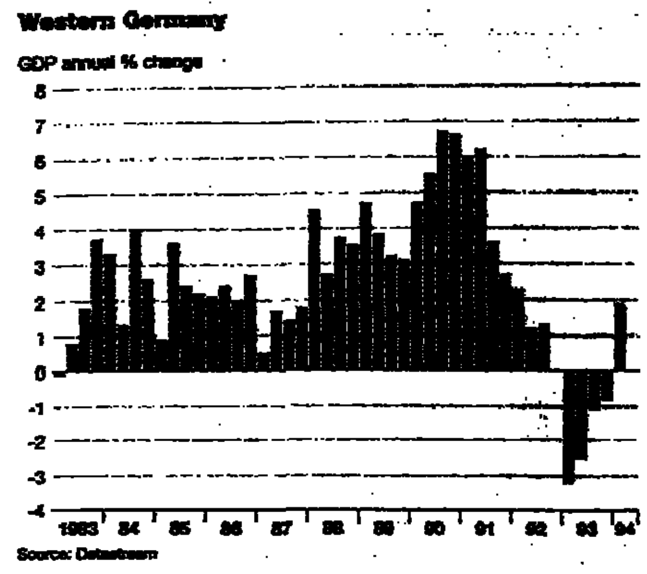
In the interim, the Berlin-based DIW institute this week issued an estimate that gross domestic product rose 1.9 per cent in the year to the end of March. The forecast is only marginally higher than that of most private economists. But DIW's analysis that domestic factors alone – including heavy private spending – were responsible for the growth is at odds with the more general view that increasing exports are pulling the economy out of recession.

Although DIW has developed a reputation for its individualistic views – improving foreign trade remains the main hope of recovery in most analysts' eyes – it was not alone in being caught off guard by the early surge in private demand. The effects on economic performance will provide unexpected and welcome underpinning for the government's forecast of 1.5 per cent growth for the full year which has lately won increasing support from initially sceptical independent economists.

However, events have not gone down so well in the Bundesbank. The monetary disciplinarians in Frankfurt have been displeased by the sight of people spending so freely while the economy – by their reckoning – has a long way to go to overcome its structural problems.

Mr Reimut Jochimsen, a member of the Bundesbank council, warned yesterday that the vaunted "special factors" were not the only explanation for continuing rapid growth in money supply. Potential inflation was lurking behind the distortions, he said, in an apparent reference to continued heavy bank lending.

"It is reasonable to assume that a significant amount of spending has been fuelled by borrowing," says Mr Richard Reid, chief economist at the Union Bank of Switzerland in Frankfurt. Saving has also dwindled. According to DIW, spending on private consumption in the first quarter rose twice as fast as disposable incomes. Mr Reid estimates the average proportion of disposable income saved fell from 13.2 per cent in the last quarter of 1993 to 11.5 per cent in the first three months of this year.



Brussels points finger at fiscal policy laggards

By Lionel Barber in Brussels

The European Commission yesterday pointed the finger at EU member states which it considers are not doing enough to curb budget deficits and restrain inflation.

Dropping its usual diplomatic language, the Commission singled out France and Denmark for lax fiscal policy, along with more familiar laggards led by Spain, Greece, Italy, and Portugal.

The UK, which has introduced record tax increases to curb a £50bn budget deficit, escapes criticism on the fiscal side. But Mr John Major's government receives an unwelcome warning from Brussels about the risks of inflation.

The criticism appears in an update of the Commission's macroeconomic guidelines which are intended to serve as a blueprint for the EU to the end of the century and a framework for achieving a single currency.

Union heads of government approved the first version of the guidelines at the Brussels summit last December. The latest paper has been adjusted to take account of the economic recovery now under way in Europe.

Mr Henning Christophersen, the economics commissioner, stressed the importance of reducing budget deficits. He expressed concern about the recent rise in long-term interest rates in Europe and said measures should be taken to reduce them so as not to harm the recovery. The Commission paper calls for a "clear confirmation" in member states' 1995 budgets that fiscal consolidation is under way. It urged Belgium to match its budget targets, and called on Spain, Portugal and Greece to embark on serious long-term budget pruning.

The Commission also noted: "In Denmark and France the deliberate policy of supporting economic activity during the recession by an expansionary fiscal policy has led to an increase in the deficit; it is important to ensure that the fiscal expansion is reversed as the economy gains momentum."

On inflation rates, the Commission says Spain, Portugal, Italy and Britain have yet to decline into the range set by the macroeconomic guidelines. Its prediction that Italy and the UK "are expected to approach it significantly next year" may irritate Mr Kenneth Clarke, UK chancellor of the exchequer, who has already clashed with London over its lower growth forecast for the UK.

Under pressure from Mr Jacques Delors, president of the European Commission, the new Brussels paper includes more emphasis on training, education, and other structural measures to tackle unemployment and encourage the creation of new jobs.

Drachma rises but selling engulfs shares

By Kerin Hope in Athens

The Greek drachma, bolstered by high interest rates, rose yesterday against both the D-Mark and the dollar, but banks said the currency crisis was causing a severe liquidity squeeze. It closed at Dr147.5 to the D-Mark, up from Dr149 on Tuesday, and at Dr244.4 to the dollar, up from Dr245.1.

However, investor nervousness prompted a wave of selling yesterday on the Athens stock exchange, fuelled by rumours that the government plans to issue a one-month treasury bill with an interest rate of more than 30 per cent.

The index dropped by 5.5 per cent to a two-year low, bringing losses for the week to around 10 per cent. Brokers said many investors were disposing of mutual fund holdings in order to invest in short-term government paper.

Analysts said government efforts to defend the currency by raising short-term interest rates to triple-digit figures had proved successful, but only at the expense of stifling the banking system. The drachma has been under constant pressure for the past 10 days, since the government decided to lift capital controls.

Faced with a deepening liquidity crisis, banks have been raising interest charges on working capital for corporate borrowers from around 23 per cent to as much 40 per cent. One banker said: "It's a grim situation. The interbank market is practically dead after 10 days of pressure and would-be borrowers are being turned away."

The National Bank of Greece, the largest state-owned bank, which controls over a third of total deposits, has started restricting withdrawals to 50 per cent of new deposits.

There is increasing speculation the government will be forced to raise interest rates sharply on treasury bills, the main instrument for financing the public sector deficit. A new issue is due next week, when the government must raise an estimated Dr400bn (£1.06bn) to meet its debt obligations.

Meanwhile, the finance ministry issued instructions to state corporations and pension funds to transfer part of their deposits to the central bank. The move appeared aimed at ensuring that the government will be able to cover day-to-day spending needs.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850, Fax ++49 69 5964481, Telex 416193. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David G.M. Bell and Alan C. Miller. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl- Strasse 3a, 63263 Neu-Isenburg (owned by Hürriyet International). ISSN: ISSN 0174-7363
Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.

FRANCE
Publishing Director: D. Good, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK, Telephone 33 13 44 41, Fax 33 93 53 35.

Paris talks aim to defuse old central European rivalries

By David Buchan in Paris and Anthony Robinson in London

Central Europe's underlying ethnic and cultural rivalries will be under the spotlight in Paris today at a European Union-sponsored security conference.

Mr Edouard Balladur, the French prime minister whose "Balladur plan" inspired the 40-nation "conference on European stability", will open proceedings aimed at helping would-be EU members settle their unresolved minority and other disputes *before* they become full members of the EU.

The conference, to be chaired by Greece as current president of the EU, is expected to conclude with a general statement of principles on the need for negotiated settlements of frontier and ethnic disputes. But the main business will be conducted at two "round tables".

These will concentrate on the specific issues of the disputed Russian military presence in Latvia and Estonia, rights of Russian-speaking minorities in the Baltics, and the way in which minority issues affect broader relations between states in central Europe.

There will be specific reference, for example, to the ethnic Hungarian minorities in Romania and Slovakia.

Most central European states have shown lukewarm support for the conference, preferring behind-the-scenes diplomacy and patient, unspectacular bridge-building. The defeat of right-wing nationalists in the first round of the Hungarian elections and the removal from power of Slovakia's nationalist leader, Mr Vladimir Meciar, have already helped to calm relations between Hungary and Slovakia.

Romania's search for economic stability and respectability has also helped to cool passions in ethnically-mixed Transylvania.

Poland, with only tiny ethnic minorities left after the predations of Hitler and geographical boundary shifts imposed by Stalin, has already concluded bilateral treaties with all seven neighbouring states. The Czechs, while slightly apprehensive about the growing demands for compensation from ethnic Germans expelled from Sudetenland in 1945, suspect that raking over ethnic issues in public is a diversion from removing the economic obstacles to EU enlargement to the east.

The round tables are supposed to produce bilateral accords of "good neighbourliness" which would be endorsed in a concluding session of the conference and then be registered with the permanent 52-nation Conference on Security and Co-operation in Europe (CSCE).

The EU has deliberately limited the conference's remit to potential EU members – the six countries of central Europe, the three Baltic republics, and Slovenia, the one peaceful fragment of ex-Yugoslavia – because it expects the prospect of entry will spur these countries into good-neighbour agreements.

But the conference's EU and French organisers have decided to steer clear of the area of greatest ethnic tension – the Balkans – because the Yugoslav imbroglio is being separately tackled by the United Nations and other international mediators.

It will also steer clear of any minority disputes within or involving the EU Twelve.

EUROPEAN DIGEST

French airline cash inquiry

The European Commission yesterday opened an official inquiry into the French government's plan for a FFr20bn (£2.3bn) capital injection into Air France, the loss-making national carrier. Officials hope to reach a decision on the restructuring plan by the end of July, mainly because of the political sensitivity of the case. Yesterday's announcement means Brussels has decided the capital injection amounts to state aid, but it has not yet judged whether the restructuring plan violates competition rules. The next step is for the Brussels authorities to examine whether the amount of aid is justified on commercial grounds, and whether it could disrupt the market. Officials will also attempt to clarify whether the rescue plan is the last of its kind, rather than a means of funnelling money into the purchase of stakes in other EU carriers. Observers predict approval for the state aid plan, albeit with conditions. *Lionel Barber, Brussels*

■ The French government is to change Air France's legal status to make it easier for the airline to offer shares to staff in return for voluntary pay cuts, Mr Edmond Alphandéry, the economy minister said yesterday. Mr Christian Blanc, the airline's chairman, said that staff shareholdings in the company could rise to between 15 and 20 per cent of the company's capital, compared with just a few per cent at present. *John Ridding, Paris*

Work starts on Leuna plant

Chancellor Helmut Kohl yesterday inaugurated construction in eastern Germany of one of the region's most modern oil refineries which is backed by Elf-Aquitaine, one of France's largest oil companies. The Leuna plant in Saxony-Anhalt is being built by a consortium headed by Elf Aquitaine, Rosneft, the state-owned Russian oil company, and Thyssen Handelsunion, a subsidiary of Thyssen, the German steel group. The consortium is investing more than DM4.3bn (£1.7bn) in the plant which will take three years to complete. The project nearly collapsed earlier this year after Elf decided to sharply reduce its stake to a minority holding, causing considerable embarrassment to Mr Kohl who had been persuaded by President François Mitterrand to give Elf access to petrol distribution and refining in eastern Germany. The project was salvaged after the Russians secured a stake at the refinery.

Mr Kohl said the refinery represented "a milestone for German-French co-operation" and "symbolises the thorough change in our relations with Russia." *Judy Dempsey, Berlin*

Danes expect strong growth

Strong growth in domestic demand will cut the surplus on Denmark's current account from DKr35bn (£3.6bn) – close to 4 per cent of gross domestic product – in 1993 to around DKr12bn by 1996, according to a report by the chairmen of the economic advisory council. They predict an increase in real private consumption by 5 per cent annually this year and in each of the two following years, while GDP is expected to increase by about 3 per cent a year over the same period. The rise will cut the central government budget deficit from DKr50bn this year to about DKr22bn by 1996 as tax revenues recover, they forecast.

The report calls for reductions in the country's minimum wage levels and "entry wages" for first-time employees as the best way to bring about a lasting reduction in unemployment, currently running at 12.5 per cent. Mr Mogens Lykketoft, finance minister, was quoted yesterday as saying that he did not accept the argument. The report also attacked an ambitious government job-sharing scheme, by which wage-earners can take six months off on unemployment pay to care for children or undertake job-related education. The scheme, so far temporary, will cost the equivalent on an extra 1.5 percentage points on the 25 per cent VAT if it is made permanent, the report said. *Hilary Barnes, Copenhagen*

Poland expands debt plans

Poland expects to buy back around a fifth of its $13bn commercial debt, according to Mr Krzysztof Krowacki, the country's chief debt negotiator. This is more than the 5 per cent of the debt mooted in talks with banks for the buy-back operation earlier this year as the country looks to reduce the stock of debt by as much as it can afford in order to clear the way for bond issues abroad next year. A buy-back of 5 per cent of the debt was considered when its price stood at around 50 cents to the dollar. The current price is 38.5 cents. Mr Krowacki said yesterday he would know exactly how much of the debt would be bought back once holders of the debt had responded to Poland's proposal made last weekend to purchase the debt at between 41 cents and 38 cents to the dollar. The operation is part of a debt reduction framework agreement negotiated with the London Club of commercial banks last March. *Christopher Bobinski, Warsaw*

Concern for Bosnian Serbs

Only 41 per cent of Bosnian Serbs live in territory controlled by their self-proclaimed leader, Mr Radovan Karadzic, according to a representative of the Serb community in Sarajevo. Out of 1.3m Serbs in pre-war Bosnia-Hercegovina, 600,000 had left the country since the war began, Mr Goran Simic, president of the Sarajevo-based "Serb citizens' council" told a meeting yesterday at London's Institute for War and Peace. A further 100,000 had died, and 200,000 were still living "under the legitimate Bosnian government," 70,000 of them in Sarajevo. The Serb citizens' council was formed in Sarajevo last March at an assembly of 500 delegates from the government-held area. Mr Simic said one of the main objectives of his council was to lobby for amendment of the proposed Moslem-Croat federation "to include the Serbs as a constituent people." This proposition had been well received by the Bosnian parliament, but the government had yet to respond to it officially. *Edward Mortimer*

ECONOMIC WATCH

Dutch trade surplus up sharply

Source: Datastream

The Netherlands' trade surplus surged to a provisional Fl 23.2bn (£8.3bn) last year from Fl 9.9bn in 1992, reflecting a rise of nearly 5 per cent in the value of exports and a slight 0.7 per cent drop in imports. The central statistical office cautioned, however, that the figures for the two years are not entirely comparable. With the advent of the European single market in January 1993, calculations of European imports and exports are now based largely on figures supplied by the companies themselves, supplemented by the office's own estimates. Officials said yesterday that even if the 1993 figure were revised later, it was likely to remain above Fl 20bn. As in previous years, the country's biggest trading partners were Germany and Belgium. *Ronald van de Krol, Amsterdam.*

■ Inflation in the western German state of Hesse slowed to 0.1 per cent in the month to mid-May from a 0.3 per cent month-on-month increase in April, the state statistics office in Wiesbaden said yesterday.

■ Italy's overall balance of payments recorded a L202bn (£85m) deficit in April after L2,290bn the previous month, the foreign exchange office said. The Bank of Italy's official reserves fell to L91,488bn in April from L91,957bn in March.

■ French household spending on durable manufactured goods rose by 1.2 per cent in April following a rise of 0.6 per cent in March, the national statistics office said.

Italian justice caught between two revolutions

Andrew Hill on tensions related to corruption probes of the old regime that touch on the new one


Di Pietro: one of an élite team of investigating magistrates with the status of a film star AP

Mr Umberto Bossi, rough-tongued leader of Italy's federalist Northern League, never minces his words. Asked on Tuesday whether crusading magistrates and their "clean hands" corruption investigations were responsible for changing Italy, he replied: "Balls."

Mr Bossi had just learned that his was the only well-known name from the new political regime on a list of 32 people who will go on trial on July 5, charged with breaking the law on the financing of political parties.

In another era – perhaps as recently as three or four years ago – any ambitious Italian politician might have been pleased to find himself in the company of those now up for trial. They include two former Italian prime ministers (the Socialist Mr Bettino Craxi and Christian Democrat Mr Arnaldo Forlani) three other ex-ministers and several well-known industrialists.

Mr Bossi – like his fellow accused – is fighting back. In an interview published yesterday in La Stampa, the Turin daily, he accused the magistrates of trying to hold up the "revolution" started by his party, now part of the new right-wing government.

The magistrates, however, claim that the formal decision on Tuesday to move to a trial is further proof that they are determined to continue a different "revolution" they began two to three years ago, by uncovering a powerful network of bribery, corruption and organised crime.

Last Saturday, for example, Palermo magistrates requested a trial for Mr Giulio Andreotti, the Christian Democrat who has seven times been prime minister of Italy. He is accused of links with the mafia, which he vehemently denies.

At least three investigations are also under way into businesses linked to Mr Silvio Berlusconi, the prime minister. Meanwhile, Ravenna magistrates are examining documents taken last Friday from the Milan headquarters of Mediobanca, the powerful merchant bank, after allegations that the bank did not reveal all it knew about a "hole" in the accounts of Ferruzzi-Montedison before the industrial company collapsed last year.

However, although the work will continue, the high-profile style of Italy's investigators may now be toned down. Mr Alfredo Biondi, Italy's new justice minister, has already said that magistrates and judges should stick to their job – applying the law – and steer clear of policy pronouncements.

Mr Francesco Saverio Borrelli, Milan's chief prosecutor, appears to agree, although he would attack any proposal that smacked of increasing the political control of judges and magistrates.

In an interview last week, he said he used to believe that magistrates should always remain anonymous. "But when this operation began, there were such strong reactions [from the public] I wondered whether perhaps at this point people wanted to know who we were," he says. "Were we archangels, demons, or people like anyone else?"

Italians certainly know who the magistrates are now, and most of them think they are on the side of the angels. The best-known example and most popular is Mr Antonio Di Pietro, one of Mr Borrelli's élite team of investigators. Currently in Los Angeles to deliver a series of lectures, he has been greeted like a film star by Italian expatriates.

Mr Borrelli believes that the decision to open up to the public – partly through carefully timed leaks to journalists about the most important breakthroughs in investigations – built up the momentum of the "clean hands" investigation.

The momentum was maintained over the last few months by revelations during the long-running trial of Mr Sergio Cusani, a financial adviser to Ferruzzi-Montedison. Much of the trial was televised, enhancing the image of Mr Di Pietro, who acted as prosecutor. Mr Cusani was sentenced to eight years in prison at the end of last month for corruption and falsifying accounts in relation to the alleged payment of L150bn of bribes by Ferruzzi-Montedison. Payment to political parties allegedly helped the group extract itself from Enimont, its ill-fated joint venture with Eni, the state energy and chemicals company, in 1990.

The trial which will begin on July 5 has sprung from testimony during the Cusani trial. As an event, it is likely to attract even more public attention. "When great heads start to roll, *il popolino* (the common people) are always enthusiastic," Mr Borrelli points out.

The danger in such an approach is that it sets up a potential "short-circuit", as Mr Borrelli puts it, between the piazza and the magistrature, which is both undemocratic and unhealthy. Mr Borelli says such a short-circuit has not yet occurred but he thinks now may be the right time to recast the public image of the magistrates.

Partly that may be a tactical decision to avoid political interference. Members of the new government have already launched into polemical debate with the judiciary and magistrates. During the election campaign in March, Mr Berlusconi was critical of the timing of certain investigative "breakthroughs" by magistrates. Mr Bossi himself rails against persecution of his party by the "gang of four" Milan prosecutors.

Mr Borrelli says the investigators are counting on popular support to maintain the impetus through many years of trials and appeals. The hope is that people will also start to clean up the smallest cases of corruption themselves. "That process hasn't yet taken off," says Mr Borrelli.

NEWS: EUROPE

Europe's Greens expect a patchy performance

Bronwen Maddox assesses the environmentalists' election prospects

EUROPEAN ELECTIONS June 9 and 12

In their own eyes, the Greens are the only political movement to have penetrated every European country. But the elections for the European parliament are likely to show that while they have established some strongholds, in other countries they are facing near-extinction. The UK's Green Party, in particular, knows that it will face a tough fight. In the 1989 elections it scored 15 per cent of the poll, the highest Green vote in Europe, and pushed the Liberal-Social Democrat Alliance into third place.

But that success was due partly to special factors. The unpopularity of the government at that point, the collapse of the Alliance, and the low electoral turn-out helped. Green issues were also high in people's minds after the 1986 Chernobyl explosion, the death of North Sea seals, and rising concern about global warming following several hot summers.

Recession and a perception that some environmentalists have been too prone to doom-mongering have since made the Greens' task harder. It is fielding 85 candidates for the forthcoming elections, contesting every seat. But the Green Party won only 1.3 per cent in the 1992 general election, although that had picked up to some 5 per cent in the local elections last month.

According to Mr Shane Collins, candidate for the very un-green London South Inner constituency, urban areas have an additional problem. "Most of our natural voters are disenfranchised", he says – they have dropped off the electoral register because they are homeless, or objected to the now-abandoned poll tax.

But both he and Mr David Taylor, candidate for Somerset and North Devon, where Greens came second last time, stress that one issue has been reviving Green concerns: the government's roadbuilding programme. Protests against the widening of the M25 road orbiting London, the extension of the M3 motorway through Twyford Down, and most recently, the Batheaston bypass at Solsbury Hill near Bath have attracted supporters of all ages and social backgrounds.

Despite this new stimulus, British Greens are labouring under a handicap not suffered by their continental European colleagues: the UK's first-past-the-post electoral system. Ms Penny Kemp, of the Green Party's national executive, believes this is one reason why environmental enthusiasm on the continent is a vigorous political force.

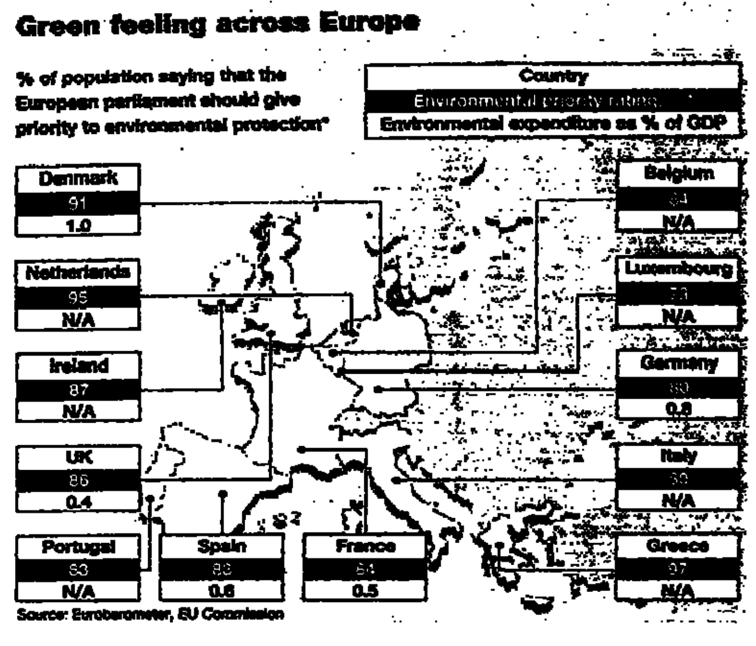
Although Greens won a smaller share of the vote on the continent in 1989 than they did in the UK, proportional representation allowed Greens from seven of the 12 countries to secure 28 seats in the European Parliament.

The German Greens' support arose originally out of national fury over the corrosion of German forests by acid rain. They were largely dismissed as a fringe group of radicals after failing to retain seats in the Bundestag four years ago. But their success in the early rounds of the German electoral marathon shows that they pose a threat of replacing the Free Democrats as the third force in German politics.

On March 20, in the Schleswig-Holstein local elections, their share of the vote rose from 6 per cent to 10.3 per cent. The previous week in Lower Saxony state elections, and in Hamburg city state elections last autumn, they seized some 13 per cent of the vote.

The Italian Green movement, which gained prominence during the reign of Mr Carlo Ripa di Meana as European environment commissioner, is also in buoyant mood. It has seen a Green candidate elected as mayor of Rome, and has high hopes for the European Parliament elections, for which Mr Ripa di Meana has pledged his support.

Green feeling across Europe



Source: Eurobarometer, EU Commission

Ms Kemp and others in the UK Green Party hope that these signs mean that European Greens will win more than 40 seats in the parliament this year. However they acknowledge that despite their best efforts, the UK contribution may continue to be low.

MEPs 'should disclose interests'

By David Marsh

The European parliament's rules on disclosure of outside business interests by MEPs is "totally inadequate", Ms Pauline Green, leader of Britain's Labour contingent at the Strasbourg assembly, said yesterday.

Ms Green, who is campaigning for re-election in the London North seat in next month's poll, said the present system for registering MEPs' links in areas like consultancy needed to be tightened.

Terming as "extremely sparse" the information MEPs were obliged to give, she said, "It is an inefficient system. I feel we should provide much more in-depth knowledge of members' interests."

She coupled her recommendation with a call for EU member states to intensify efforts to co-operate with the parliament.

Speaking at a conference in London organised by the European Business Foundation, Ms Green said member governments were now recognising the increased importance of the parliament in the EU legislative process.

"There's a huge amount to be done in bringing that together."

Britain, in particular, had realised that working together with the parliament was essential to maximise influence over European legislation, Ms Green claimed, saying the UK government had "suddenly become pro-active" in its relations with the assembly.

Ms Green was speaking along with Sir Christopher Prout, the leader of the UK Conservatives in Strasbourg, and Sir Russell Johnston, the Liberal parliamentary spokesman on European affairs.

Jobs crisis dominates campaign in France

By David Buchan in Paris

France must be the only EU state where people have been passing around the hat at some European election rallies to buy arms for a "European" cause.

"So far we have got commitments of FFr20,000 (£2,331) to buy weapons for the Moslems in Bosnia," said a representative yesterday of "Action for Bosnia". It has been raising funds at rallies of the "Europe Begins at Sarajevo" group which is expected to file its candidate list by tomorrow, the closing date.

The campaign to lift the arms embargo on Bosnia has injected a note of uncertainty into the election in France and, given France's leading diplomatic and military role there, in the future course of western policy in Bosnia.

The campaign has been mounted in the media with great skill by Mr Bernard-Henri Levy, a left bank Paris intellectual who produced a film on Bosnia for this month's Cannes festival and has since gathered 86 other "potential" names to run on the "Europe Begins at Sarajevo" ticket. "Potential", because for the past two weeks, Mr Levy and his colleagues have been saying that, if the mainstream parties adopt their arms-for-Bosnia stance, they will withdraw their candidates.

These pressure tactics have had only limited impact on the joint government list of the RPR gaullists and the UDF centre-right led by Mr Dominique Baudis, mayor of Toulouse, but far more on the Socialist list led by Mr Michel Rocard.

Fearing that Mr Levy could provide further competition for the left-wing vote – in addition to that already provided by the radical list led by Mr Bernard Tapie, the controversial Marseilles businessman and politician – the socialist leader has tried to head him off. Lifting the arms embargo would be "recognising our failure [in Bosnia], but the only way of saving a bit of honour," said Mr Rocard. But this statement may have come too late to save Mr Rocard votes.

Less surprising is the other issue dominating the election – employment, which is already the national preoccupation in a country with a record 12.2 per cent jobless rate.

Two thirds believe the EU jobs policy is wrong

A poll in yesterday's Libération newspaper showed that two-thirds of French believe the EU's employment policy is not headed in the right direction. But there has been little precise debate about the right direction for Europe, partly perhaps because few French politicians dare espouse the labour market reforms prescribed by the Delors white paper on European competitivity. They have all seen the trouble Prime Minister Balladur ran into attempting too overt a cut in the minimum wage for French youth.

The Euro-election debate has also been blunted by the fact that the joint list of the RPR-UDF governing parties is a composite, ranging from enthusiastic Europeans to all but the most die-hard opponents of the Maastricht treaty, who themselves have formed the dissident "Alternative Europe" list under Mr Philippe de Villiers and Mr Jimmy Goldsmith, the Anglo-French financier. To deny ammunition to the latter, Mr Baudis carefully hides his federal faith and eschews any mention of Maastricht, or indeed of Gatt, Mr Goldsmith's particular bête noire.

In the same vein, Mr Alain Lamassoure, the EU affairs minister who is one of the few ministers to be doing much campaigning, is stressing the need for subsidiarity within the EU, a rare area where the French and British governments have something in common. Taking another leaf out of Britain's book, he has also been using the campaign to try to set a series of "Euro-scares" to rest by, for instance, emphasising that Brussels rules on unpasteurised cheeses were drawn up at France's request so that its "fromages a lait cru" could continue to be sold throughout Europe.

According to yesterday's poll, 47 per cent of French claim their vote on June 12 will be determined by European issues while 41 per cent admit national issues will dictate the way they cast their ballot. But the election will still be very largely read as a preview of next May's presidential contest.

It is less crucial for Mr Balladur, or his fellow gaullist rival, Mr Jacques Chirac; neither are on the government list. But the stakes are high for Mr Rocard, who is leading his party's list; if his list gains much less than 20 per cent, it may encourage some in his party to look for another to keep the Socialist standard flying in the Elysée.

'Tighter rules on lobbying needed'

QUESTIONS ON EUROPE

David Bennett, 45, is managing director of the London-based public affairs company Beaumark, specialising in EU affairs. A former employee of the European Commission and British Gas, he stood unsuccessfully for the Liberal Social Democratic Alliance in the 1983 and 1987 UK elections and for the European parliament in 1994.

The amount of influence over MEPs by industry lobbyists has attracted concern. What changes are needed covering contacts between lobbyists and MEPs or MEPs' staff? The rules on conduct of EU officials, MEPs and their staff in relation to transfer of Commission documents and information need to be tightened. Until the parliament agrees a method for the full declaration of MEPs' outside business and consultancy interests, it will be difficult to establish effective codes of practice for external lobbyists.

Can British MEPs set a lead in trying to bring about greater transparency? The Westminster model of disclosure sets an appropriate standard for MEPs to follow. British MEPs could take the initiative by introducing full disclosure of their outside interests. This would reassure the British electorate that they operate in a comparable way to their Westminster counterparts. It might spur MEPs from other countries to follow suit.

How many lobbyists do you consider are active in Brussels and Strasbourg in building relations with members of the European parliament? The best estimate is 140 public affairs consultancies, 160 law firms, 572 trade associations and professional associations and 58 regional and local authorities. The Commission estimates that there are 3,000 interest groups with links to EU institutions, employing 10,000 people.

What are the prospects for a code of practice? Twenty leading public affairs companies, including Beaumark, are discussing a draft code of practice with the Commission.

How rewarding is this business for European lobbyists? Typical annual turnover of companies active in the EU public affairs field is £200,000 to £700,000. The leading company claims turnover of more than £1m. Beaumark's this year will be £300,000 to £400,000.

Are you concerned that some lobbyists may gain access to information under false pretences, for instance, by posing as journalists? Yes. There should be clear separation between journalists covering the parliament and lobbyists. Where there are doubts, the status of the "journalist" concerned should be reviewed.

CONTRACTS & TENDERS

ACCOUNTANCY AND AUDIT
TRAINING FOR VAT ASSURANCE STAFF
LARGE TRADER ASSURANCE

HM Customs and Excise invite tender applications to provide Accountancy and Audit Training for VAT Officers involved in Large Trader Assurance.

Working in the current business environment, VAT officers carrying out assurance visits to large traders are faced with complex business structures and accounting systems.

Additional training in accountancy and audit skills is required to enable them to apply systems audit based techniques, to interpret more complex accounting information and to have confidence in dealing with accountancy professionals.

Your professional training organisation must have considerable current experience in designing and delivering training programmes which embrace accounting, auditing and accounting systems and methods.

If you wish to be considered for an invitation to tender, please provide the following information - business name and address, contact name and telephone number, the number of years your business has been established, your VAT registration number, the nature of your business, the scope of your training services, a copy of your most recent audited accounts, details of any involvement in the delivery of training to other Government Departments and other contracts you feel would be of interest to us.

Please write, quoting reference MB/T1, by 10.6.94, to Derek Hall, Principal, HM Customs & Excise, Training Services, Carby House, 73 Victoria Avenue, Southend on Sea, Essex, SS2 6EB.

LEGAL NOTICES

IN SUPREME COURT OF BERMUDA
NO. 536 OF 1993
IN THE MATTER OF
BRISTOL REINSURANCE LTD.
(IN LIQUIDATION)
AND
IN THE MATTER OF THE COMPANIES ACT 1981
AND
IN THE MATTER OF THE INSURANCE ACT 1978
(UNDER AN ORDER FOR WINDING-UP THE ABOVE-NAMED COMPANY, DATED THE 13TH DAY OF MAY, 1994)
NOTICE TO CREDITORS OF FIRST MEETING

NOTICE IS HEREBY GIVEN that the First Meeting of Creditors in the above matter will be held at The Chartered Insurance Institute, Insurance Hall (Committee Room 2), 20 Aldermanbury, London, EC2V 7HY, U.K. on Friday 8th July, 1994, at 10.00 am.

Proofs of Debt and Proxy forms to be used at the Meeting must be lodged with me, at the address shown below, not later than 3.00pm on Friday 1st July, 1994.

Dated this 16th day of May, 1994.
Malcolm L. Butterfield
Official Receiver and Provisional Liquidator

BLAIDWOOD LIMITED
Registered Number: 1620550
Trading name: Zen
Nature of business: Restaurant
Trade Classification: 49
Date of appointment of administrative receivers: 19 May 1994
Name of person appointing administrative receivers: Overseas Trust Bank Limited
N RUDDOCK and N H COOPER
Joint Administrative Receivers
(Office holder numbers 6877 and 005399/01) of
186 City Road, London EC1V 2NU

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Kenya nears total currency convertibility

By Leslie Crawford and Michael Holman in Nairobi

Kenya yesterday made its currency fully convertible for nearly all transactions, one of the most important steps in the country's liberalisation programme.

The measures were announced a day after Kenya's ruling Kanu party backed a controversial reform programme, urged by western donors, which embraces all aspects of the economy.

The decision reflects government confidence that Kenya's economic and political stability will ensure that there is no capital flight.

Mr Musalia Mudavadi, the finance minister, said Kenya's relaxation of the exchange control act made the shilling fully convertible for all current account transactions. Kenyans are now free to invest outside the country up to a maximum of $500,000 without central bank authorisation. The bank says it will approve all bona fide transactions beyond that amount without undue delay.

Exporters are also free to retain all export proceeds in foreign currency. Previously, they had been required to surrender part of their foreign exchange earnings after 90 days.

"This is about as free as you can get, it is quite an achievement," said one private banker.

Mr Mudavadi said new procedures would also be introduced to simplify transactions, previously mired in bureaucracy which encouraged corruption.

The only area which will remain subject to exchange controls is inward investment in shares and government securities by foreigners. Mr Mudavadi said legislation to allow foreign investment funds into Kenya was not yet ready. He did not say when the last controls would be removed.

The currency liberalisation measures appear to have been decided in the wake of the appreciation of the shilling and the build up of $700m in foreign exchange reserves – enough to cover 4½ months imports – which reflect a new confidence in Kenya's economic policies.

Furthermore, they signalled President Daniel arap Moi's support for the 33-year-old finance minister, who has fought, since he took over last year, to implement the economic reform programme in the face of fierce opposition from some politicians and civil servants who resent the loss of patronage implicit in his reforms.

The decision coincided with a visit by an International Monetary Fund mission, which completed a review of Kenya's enhanced structural adjustment policy this week, concluding that the East African country had made considerable progress since multi-party elections in December 1992.

The polls, which returned President Moi to power, caused a large increase in money supply and saw inflation spiral out of control. Opponents say money was printed to buy votes.

Mr Hiroyuki Hino, IMF assistant director for Africa and leader of the mission, praised "substantial progress" but said the fund was concerned about the budget deficit and the financial performance of state companies, long criticised as nests of corruption for Mr Moi's stalwarts.

"What is important to us is to send a clear message to the Kenyan people that these sorts of irregularities will not be tolerated again," Mr Hino said, in reference to some of the worst reported abuses of the so-called "political banks".

But he said the IMF was not attaching strings to future aid.

Monetary conditions were "not as tight as had been expected" and the budget deficit for the financial year ending next month was likely to reach 7 per cent of GDP, 1 per cent higher than the target.

Beijing success may impress Chernomyrdin

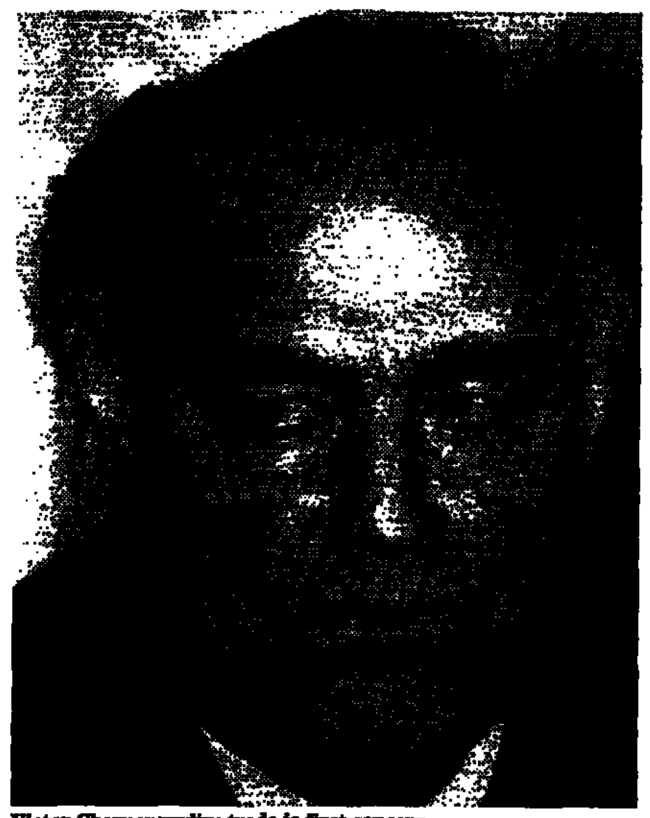
Tony Walker previews the Russian prime minister's four-day visit to China

When Mr Victor Chernomyrdin arrives in Beijing today his view of life in the Chinese capital through the tinted windows of his official limousine may be of greater interest than the issues to be discussed in four days of talks with officials.

Russia's prime minister could not help but be struck by evidence that China's embrace of the market has carried it farther and faster than his country's fumbling efforts to reform its socialist era economy.

Chinese leaders are known to draw unfavourable comparisons with economic progress in Russia to urge swifter reform, lest China's ruling Communist party meets the same fate as its counterpart in the former Soviet Union.

While it is most unlikely that any Chinese official would be so undiplomatic as to make crude reference to the yawning gap between the performances of the respective economies – China recorded growth rates in each of the past two years of about 13 per cent compared with decline in Russia – it would be hard for Mr Chernomyrdin to ignore China's success.



Victor Chernomyrdin: trade is first concern Associated Press

He might seek to draw lessons from his exposure to China's economic progress: at the very least he will be trying to engage his country's economy more closely with that of its booming southern neighbour.

Mr Chernomyrdin's visit will be concerned primarily with trade, including vexed questions of payment – both countries are seeking a bigger proportion of payments in cash rather than barter goods. These and other trade-related issues, such as strengthening management of border trade, are being discussed in Beijing this week at the second session of the Sino-Russian Joint Commission on Economic, Trade and Technical Co-operation.

Mr Alexander Shokhin, Russia's deputy prime minister has been in Beijing since early this week for the joint trade commission. He will also have been preparing for the Chernomyrdin visit which will encompass a broad range of topics, including co-operation in aerospace – such as a joint fighter project – chemicals, pharmaceuticals, and machinery. They are also working on improving sea, road and rail transport routes.

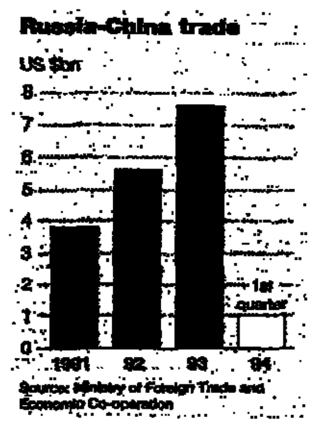
Two-way trade reached $7.68bn last year, an increase of 30 per cent over the year before, making Russia China's seventh-largest trade partner. Chinese imports reached $4.99bn and exports $2.69bn.

In the first three months of this year two-way trade fell sharply, however, to $991m. This was largely due to a dramatic slide in border trade which, according to some estimates, was down by more than 50 per cent to the end of March compared with the corresponding period last year.

Stricter customs and immigration regulations on the Russian side have slashed the number of Chinese pedlars crossing the frontier. Payments problems are also bedevilling cross-border trade.

In Beijing, Mr Geng Xuncai, a senior ministry of trade official, called for a greater percentage of business to be conducted in cash. This call partly reflects growing Chinese impatience with the practical difficulties of barter trade, which accounts for 70 per cent of business, now that the state-controlled trading system is breaking down.

The Russians are also pressing for cash payments for supplies of military equipment, according to the representative of a western arms supplier in Beijing.



Source: Ministry of Foreign Trade and Economic Co-operation

China purchased 26 Su27 fighters from Russia in 1992 and is anxious to add another squadron but payments problems appear to be holding up the deal. On-going negotiations on military purchases and exchanges in the technical field are being underpinned by a new military co-operation agreement.

The agreement, signed last November by Mr Pavel Grachev, the Russian defence minister, provides for an annual review of military co-operation and includes reference to the possibility of joint training exercises and access to each other's airfields.

Russian and Chinese officials have been stressing the complementary nature of the two economies. In Beijing, Mr Igor Rogachev, the Russian ambassador, described as "great" the potential for economic co-operation. He proposed the establishment of more joint ventures to marry Russia's "natural resources with China's rich agricultural and labour resources".

Russia itself is anxious to exploit China's enormous demand for infrastructure assistance. It has proposed that it become involved in big capital works projects such as the $10bn Three Gorges dam on the Yangtze river.

Among the more delicate issues of Mr Chernomyrdin's visit are those concerned with foreign relations. Moscow will have viewed with misgivings a recent 12-day tour of central Asia by China's premier Li Peng which was aimed at increasing Beijing's influence in those former Soviet republics, including resource-rich Kazakhstan.

Russia fears a greater Chinese presence in these areas and with it increased competition for the region's oil and minerals resources. China traditionally has regarded the countries on its western frontier as part of its sphere of influence.

Meanwhile Moscow has indicated that it is anxious to calm the tension on the Korean peninsula and that it would like to work more closely with China on this. But Russian influence is much diminished in Pyongyang these days. Beijing may not wish to complicate its dealings with the North Koreans by involving Moscow too closely in attempts to persuade them to agree to international demands to open their nuclear sites to inspection.

Indian Airlines settles pay dispute with engineers

State-owned Indian Airlines said yesterday it had settled a pay dispute with engineers, ending their 10-day strike that had disrupted flights, Reuter reports from New Delhi.

The Press Trust of India said the airline, which flies mainly domestic routes, agreed to a 45 per cent increase in the allowances of some 860 striking engineers.

Indian Airlines officials said earlier they had invited the engineers for talks on a productivity-linked incentive scheme after they had rejected a 30 per cent wage increase.

The engineers began a go-slow on May 16 to back demands for wage parity with their higher-paid counterparts in Air India, the country's international air carrier.

Indian Airlines, in the red since private airlines were allowed to compete against it three years ago, said earlier it could not afford to pay what would have amounted to a 90 per cent wage rise. It lost more than Rs100m (£2.1m) in revenues during the go-slow.

Taiwan ends China travel ban

Taiwanese travel agents lifted a 25-day boycott against China yesterday, despite lingering anger over the death of 24 Taiwanese tourists in eastern China two months ago, AP reports from Taipei.

The boycott was part of Taiwan's reaction to allegations that the tourists were robbed and murdered and that China covered up the facts.

But the attempt to punish China appeared to have ended with travel agents and the government each saying the boycott was the other's initiative.

Travel agents say about 20,000 cancelled tours have cost them revenues of between T$40m to T$100m (£1m to £2.5m). Last year about 1.5m Taiwanese travelled to China, pumping $3bn into the Chinese tourism industry.

The Taipei Association of Travel Agents said the lifting of the boycott was approved by the Mainland Affairs Council, which makes Taiwan's mainland policy in the absence of official China-Taiwan ties.

Mr Micky Chen, the council's director of economic affairs, said the government had never encouraged organised tours to China, believing it to be a dangerous place, but was in no position to impose travel bans. "It was travel agents who started the boycott," he said in an interview.

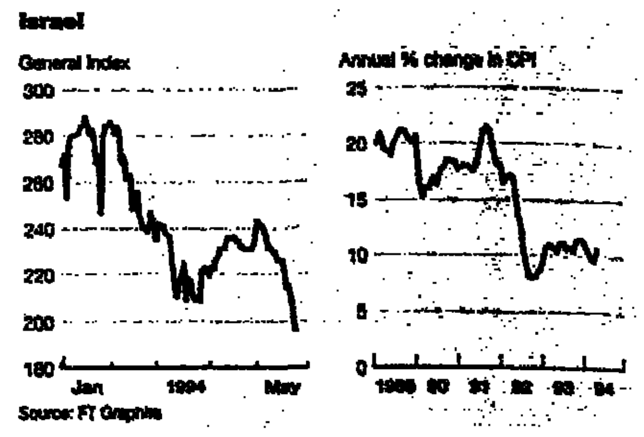
China and Taiwan do not recognise each other, and their trade and tourism links, while tacitly approved by both governments, are unofficial.

The bodies of the tourists and eight Chinese crewmen were found in the burned-out hulk of a pleasure boat on Thousand Islands Lake in Zhejiang province.

The victims' relatives complained that they were denied information and harassed when they visited the lake.

Central bank says peace process will help boost economy

Israel forecasts 5% growth



By Julian Ozanne in Jerusalem

Israel's central bank yesterday predicted the economy would grow at 5 per cent this year despite concern about high inflation and interest rates, a slowdown in Jewish immigration, and a continuing stock market downward trend.

The Bank of Israel, which published its annual state of the economy report yesterday, said a stable economic policy and exploitation of sound infrastructure and potential human resources would fuel fast growth in the coming years.

Growth of 3.5 per cent for 1993 was low, against 6.7 per cent growth in 1992, but that was temporary. The low growth masked significant rises in exports, investment and employment. The central bank also said the unfolding Arab-Israeli peace process would have positive effects on the Israeli economy in opening new markets, increasing exports, investments and consumption.

"We have the potential, the technology, the manpower and the new markets ... the general direction is positive," Mr Jacob Frenkel, central bank governor, said. "Despite the stock exchange crisis, growth will remain as expected." Analysts said the bank was seeking to deflect criticism from industrialists and finance ministry officials that recent rises in interest rates would curb economic growth.

But Mr Frenkel warned that the government would have to tackle urgently a runaway inflation rate, which is about 13.5 per cent, well ahead of the government's 1994 target of 8 per cent. The central bank said inflation was the product of rocketing housing prices, now climbing at an annual rate of 35 per cent. Mr Frenkel urged the government to release more state-owned land, press contractors to build in a fixed time, and increase permits for foreign construction workers to fill jobs of Palestinians unable to come to work after Israel sealed off the occupied territories.

The cabinet is due to finalise plans on Sunday to combat the housing crisis.

Mr Frenkel said the government should press ahead with privatisation despite the crisis on the Tel Aviv Stock Exchange where shares have fallen 18 per cent in the past three weeks. The Mishtanim index of the top 100 blue chip shares fell by 1.5 per cent again yesterday, closing below the level of August 1993.

Further reforms in economic policy, including lower taxation, faster liberalisation, and increased investment in infrastructure, were necessary to ensure greater stability, the bank noted.

"Israel today has the potential to continue fast growth, while integrating into the world's business community and exploiting the new possibilities opened by the peace process," the report said.

Rights groups warn on Hong Kong refugees

Louise Lucas on worsening tension as the time approaches for Vietnamese repatriation talks

Children of Vietnamese asylum seekers held in detention centres in Hong Kong may know little of life beyond the heavy iron gates, but in recent weeks they have seen some horrific things around them: adults tearing open their own flesh with sharpened spears of bamboo and knives, self-immolation and the emaciated figures of hunger strikers.

In the past week 65 cases of self-wounding have been reported at the detention centres, and emotions are set to escalate before a key meeting next week in Bangkok to discuss strategies for resettlement and repatriation of the Vietnamese asylum seekers remaining in Asia. Pressure groups are urging the Hong Kong government to move fast to defuse a potentially explosive situation.

The government's recent track record is not encouraging. Last month, the Correctional Services Department despatched 1,200 officers in riot gear to move 1,500 Vietnamese from Whitehead Detention Centre, in Hong Kong's New Territories, to High Island Camp, half an hour's bus ride away.

The storming of Whitehead was crude, violent and excessive, according to lawyers and rights groups. Buddhist shrines were torn down, women and children kicked and punched, mace sprayed in detainees' faces and teargas fired liberally, they say. These claims, and others, are being investigated by an independent inquiry set up by Mr Chris Patten, Hong Kong's governor.

Human rights groups say at least 270 people were treated by doctors after the storming during which, they say, 557 teargas shells were fired, along with a pepper-fog teargas machine. The government at first admitted to 250 rounds of teargas and 30 casualties.

Sheds like this at the Sham Shui Po camp in Hong Kong house 1,800 Vietnamese refugees each *Howard J Davies*

Just over half the 52,000 Vietnamese refugees in camps throughout Asia are held in Hong Kong detention centres. Hong Kong itself already has one of the world's highest population densities at 5,390 people a sq km, and the 1992 agreement struck with Hanoi to repatriate non-refugees seemed a fair solution.

However, repatriation is proving a double-edged sword: government figures show it has brought the annual flood of asylum seekers down to a trickle, but the plight of men and women being forcibly returned to a country where they say they would be at risk has provoked indignation in the US and elsewhere.

There is little local sympathy. In an economy where the onus for welfare has traditionally been put upon the family, it goes against the grain to see the governments of Hong Kong and Britain together with the United Nations High Commission for Refugees shell out funds on the Vietnamese' upkeep (the total bill for the current financial year is expected to be HK$998m (US$129m).

When one youngster, en route to the US after a last-minute reprieve, said he never wanted to see Hong Kong again, an outraged reader wrote to the local daily, the South China Morning Post: "His remark instils a feeling of guilt among the people of Hong Kong who have been doing more than any other people in the world for the Vietnamese refugees. As for this young man, we provided food, shelter and, not least, the opportunity to seek a new home elsewhere."

Most of those awaiting screening will be rejected as lacking a well-founded fear of persecution in Vietnam: of the 58,491 people already screened, 89 per cent were screened out.

Government officials refer to them as "economic refugees," despite the fact that Hong Kong is full of maids from the Philippines, sandwich boys from the UK, MBAs from the US and barmaids from Australia.

Most of the asylum seekers are packed within the confines of rude bunkers in Whitehead Detention Centre, whose walls are topped with massive loops of barbed wire. In summer the huts are sweltering, in winter freezing. Whitehead faces the sea, but affords no more of a view than Alcatraz.

"They are isolated and insulated," says Ms Pam Baker, a lawyer who chairs Refugee Concern. "No independent body goes in there. The UNHCR and the Hong Kong government are in cahoots and have the whole thing tied up. It is pretty claustrophobic, and they don't really know what's going on in there so they make up rumours which go around and spread like wildfire."

Mr Jahanshah Assadi, the Hong Kong chief of mission at the UNHCR, says the recent spate of self-mutilation in the camps is "quite regrettable." But what more can he do, he asks.

What the UNHCR does is provide counselling. This, it believes, is sufficient and has quashed certain requests by Refugee Concern for lawyers' visits on these grounds alone.

Refugee Concern wants it to grant access to concerned individuals, non-governmental organisations and lawyers. It could also sanction the installation of payphones, and it could allow a free flow of information, it says.

In short, it says, it could provide some of the amenities already offered to inmates at Hong Kong's Victoria Prison.

Fall in investment hits Australian budget hopes

By Nikki Tait in Sydney

Investment by Australian companies fell more than 5 per cent between the last quarter of 1993 and the first quarter of 1994 – a decline which casts further doubts over the optimistic assumptions on which the federal government has based its 1994-95 budget calculations.

According to the latest Australian Bureau of Statistics figures, real private capital expenditure on equipment, plant and machinery dipped from A$4.195bn to A$3.9bn (£2bn to £1.88bn), while spending on buildings fell from A$2.027bn to A$1.984bn.

The corresponding figures for the March quarter of 1993 were A$4.144bn and A$1.876bn respectively.

The figures are significant because the federal government is banking on a substantial upturn in business investment to help boost economic growth to about 4.5 per cent in 1994-95 fiscal year. It needs growth of this order to generate extra tax revenues, to fund a number of welfare-related schemes, most notably, an ambitious jobs programme designed to address Australia's double-digit unemployment rate.

In his budget speech earlier this month, Mr Ralph Willis, treasurer, forecast a 14.5 per cent increase in business investment during 1994-95, after a predicted rise of 1 per cent in the current year.

This figure was in line with some private-sector expectations, but was at the upper end of the forecasting range.

The government's projections immediately encountered scepticism from some employer groups, which felt Australian companies were still seeking efficiency gains rather than new capacity, and suggested that profit improvements among small and medium-sized businesses are lagging those in large, quoted corporations.

Yesterday, Mr Willis defended the government's projections, saying overall expectations for the year were unchanged, and that he expected the "realisation ratio" (the ratio of actual investment to expected investment) to increase. But analysts, who had been expecting a modest investment pick-up in the March quarter, or a stable position at the least, were surprised by the data.

"The fall in plant and equipment expenditure in the March quarter is unexpected, puzzling and disappointing," Mr Chris Caton, chief economist for Bankers Trust Australia, commented.

● The Australian Chamber of Commerce and Industry, the nation's largest employer group, is to lodge a formal complaint with the International Labour Organisation over new federal legislation on industrial relations next week.

The ACCI claims the law, passed at the end of last year and highly unpopular among employers, breaches fundamental principles of collective bargaining and does not allow companies to bargain freely with employees without being impeded by compulsory arbitration and centralised awards.

Advance for Republicans in US poll

By Jurek Martin, US Editor, in Washington

Republican hopes for gains in the mid-term congressional elections in November were sharply lifted late on Tuesday when the party captured in Kentucky a House of Representatives seat that had voted Democratic for the last 129 years.

In a special election caused by the death in March of Congressman William Natcher, Mr Ron Lewis, a fundamentalist Christian minister, defeated Mr Joe Prather, the Democratic candidate, by 55:45 per cent.

The House now holds 256 Democrats, 178 Republicans and one independent (Mr Bernie Sanders of Vermont).

Last month, the Republicans picked up another traditional Democratic seat, in Oklahoma, also a state bordering the south. With 11 incumbent Democrats in the region having announced retirement, and with more than 40 House seats to be vacated by incumbents of both parties nationwide, the prospects for further Republican gains in November seem clear, perhaps beyond the 25-seat advance hitherto considered realistic.

Particular factors applied this week in Kentucky's second district, not least the absence of Mr Natcher, a fixture for the last 40 years who was often returned unopposed.

Mr Natcher, a conservative Democrat by any standards, bucked the party trend evident in his own district in presidential elections. In 1992, President George Bush beat Mr Bill Clinton from neighbouring Arkansas in the district by 45:41 per cent (Mr Ross Perot, the independent, took the rest); in 1988, Mr Bush beat Mr Michael Dukakis there by 60:40.

Mr Lewis benefited, in a low voter turn-out, from strong organisation by the religious right and $200,000 (£132,000) in funding, mostly for media advertising, from the Republican national committee. Mr Prather ran a low-key campaign.

The victor also scored heavily by explicitly identifying his opponent with the policies and personality of President Clinton. One slogan ran: "If you like Bill Clinton, you'll love Joe Prather. Kentucky doesn't need another professional politician."

Special factors or not, Mr Clinton has presided over a series of worrying Democratic defeats in elections since he won the presidency in November 1992. These include senate races in Georgia and Texas, gubernatorial contests in New Jersey and Virginia, mayoral contests in Los Angeles and New York, and two House seats in the last month.

Some of the president's policies have not gone down well in the south, including his proposals to increase taxes on tobacco, a regional product.

Also, some of these electoral reverses have been partly brought about by intense efforts by the religious right. These have been most effective in its heartland of the south and the region's borders, and wherever voter turn-out has been low and national attention elsewhere, and so do not necessarily imply growing support for the Christian conservative agenda nationwide.

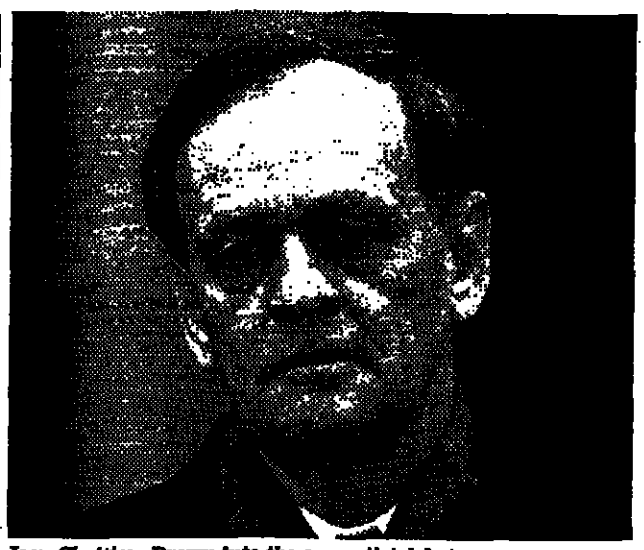
Chairman may be on way out

Lawyers for Democratic Congressman Dan Rostenkowski were reported yesterday to have offered his resignation as House ways and means committee chairman and, perhaps, even his acceptance of a short prison term in exchange for the dropping of a multi-count federal indictment on expense account offences, Jurek Martin reports.

It was far from clear whether a plea bargain acceptable to both sides could be reached but Mr Rostenkowski's days as committee chairman seemed to be numbered.

Mrs Hillary Rodham Clinton conceded yesterday that his departure would be a blow to the passage of healthcare reform by Congress this session, which the powerful chairman is committed to achieve. But she remained confident that an acceptable bill to guarantee universal medical insurance in the US would emerge.

The charges against Mr Rostenkowski stem from, and seem to go beyond, the House post office scandal unearthed three years ago. In spite of the negotiations being conducted by his lawyers, he has repeatedly protested his innocence.



Jean Chrétien: Drawn into the separatist debate Picture: Ashley Ashwood

Chrétien warns Quebec

By Bernard Simon in Toronto

Canada's prime minister Mr Jean Chrétien has added his voice to a rising chorus of warnings about the risks Quebec faces if the francophone province steps up its campaign for independence.

Mr Chrétien has so far tried to steer clear of the separatist debate, but he has been drawn into it by the separatists' strong performance in opinion polls before a Quebec provincial election, due by year-end.

The Parti Québecois, which has promised immediately to launch a loosening of Quebec's ties with Ottawa if it wins the election, is well ahead of the ruling Liberals in the polls.

The PQ's federal counterpart, the Bloc Québecois, has lost no opportunity to press the separatist cause outside Quebec. The BQ forms the official opposition in the House of Commons in Ottawa.

Mr Chrétien accused the separatists this week of hurting the economy by sowing doubts in financial markets about Canada's political stability. The prime minister said he was confident that Quebec people would vote to stay in Canada if a referendum were held. The PQ plans to call one within a year if it wins the forthcoming election.

Concern has grown in the federalist camp, however, that the risks of separation are not being driven home forcefully enough to Quebec voters.

Mr Peter White, a business partner of publisher Mr Conrad Black and head of the Council for Canadian Unity, warned in a newspaper commentary this week that nationalist parties "have already made tremendous strides in making independence seem natural, inevitable and practically a fait accompli."

Venezuelan currency value down sharply

By Joseph Mann in Caracas

The value of the Venezuelan currency, the bolivar, fell sharply after the introduction of a new procedure for sales of foreign exchange by the central bank. The new system narrowed the gap that had developed between the official value of the currency and that on the parallel market.

Many bankers and economists said they believed the central bank had taken a step in the right direction by abandoning the system of rationing sales of dollars to banks and exchange houses. It could help to stabilise Venezuela's jittery foreign exchange market.

A growing gap had emerged this month between the official rate set by the previous auction system and the rate on the parallel market.

The central bank abandoned the limited auction system on Monday and dealers started operating a "Dutch auction" system, under which the central bank sells foreign exchange to banks and exchange houses offering the highest bids of the day. The new procedure sets no limits on resale margins and is more responsive to market demands.

Yesterday, the central bank sold dollars to the banking system at rates ranging from 169 to 182, for an average of 172.91 per dollar.

On Tuesday, Venezuelan commercial banks sold US dollars to corporate clients and the public at rates varying from 165 to 185 bolivars to the dollar, after purchasing dollars from the central bank at a maximum rate of 165 to the dollar.

The average price at 29 commercial banks for buying dollars on Tuesday was 175.88:1, a 21 per cent devaluation in comparison to the previous day's official dollar price, but a 4.4 per cent devaluation against Monday's price on the parallel market.

In all of 1993, the bolivar lost 25 per cent of its value against the dollar.

The central bank did not release any figures on the amounts of dollars sold on Tuesday, but these were clearly higher than under the previous system, which probably averaged about $35-40m per day, bankers estimated.

Mr Edgar Romero Nava, president of Fedecámaras, Venezuela's largest commercial and industrial association, praised the central bank's new procedure as "more transparent" than its predecessor, but warned that it will not work in isolation.

He said the government of President Rafael Caldera should also implement "macroeconomic stabilisation measures" such as a sound fiscal policy, privatisation of state-owned companies and a reform in the present system of employee severance benefits, as well as improving purchasing power for the public.

Rise in durable goods orders points to growth

By Michael Prowse in Washington

US orders for durable goods rose 0.1 per cent between March and April, less than analysts expected, but the longer-term trend appeared consistent with continued robust economic growth.

The increase in orders was the 11th consecutive monthly gain and followed a revised 0.7 per cent increase in March. Orders were 10.4 per cent higher than in April last year, before allowing for inflation of just under 3 per cent.

Separate figures yesterday showed a small rise in sales of existing US homes last month, to an annual rate of 4.12m against 4.07m in March.

The volatile transport sector accounted for much of the weakness in goods orders last month. A decline in orders for motor vehicles and railway equipment more than offset increased demand for aircraft. Excluding transport, orders rose 0.6 per cent from March.

Analysts were divided over the figures, partly because they disagree on the extent to which increases in short- and long-term interest rates are curbing economic growth.

"Today's report adds to earlier evidence that the economy was already slowing down," said Mr Robert Barr, a senior economist at the US Chamber of Commerce. The Federal Reserve's decision to raise interest rates last week "may not have been warranted," he added.

Mr Richard Berner, chief economist at Mellon Bank in Pittsburgh, said the underlying trend was strong and predicted US capital spending would remain robust, partly because demand for US durable goods was now growing in overseas markets.

The Fed would soon have to consider raising interest rates again, to prevent growth putting upward pressure on inflation, he warned.

Many analysts expect figures for gross domestic product, due on Friday, to show a modest downward revision in economic growth in the first quarter to an annualised rate of just over 2 per cent, against a preliminary estimate of 2.6 per cent.

But this is widely seen as underestimating the economy's underlying rate of growth. Wall Street growth projections for the second quarter range from an annual rate of 3.5 per cent to as much as 6 per cent.

Guatemala risks loss of loans

By Edward Orlebar in Guatemala City

The Guatemalan government is facing a fiscal crisis and will probably fail to meet conditions imposed by official creditors. This follows Congress having resisted crucial draft legislation this month.

Congress failed to pass before the summer recess tax reforms which the finance ministry hoped would offset sharp revenue losses this year and hold the government's tax take at 8.5 per cent of GDP.

The reforms were to include stiffer sanctions for tax evaders, the abolition of many value-added tax exemptions, and the introduction of a 2 per cent capital tax.

The government may now fail to meet June 30 fiscal targets set by the International Monetary Fund. That would lead to a freeze of a $35m (£23m) financial sector loan from the Inter-American Development Bank and of a $42m structural adjustment loan from the World Bank.

The tax reform package was also opposed by Guatemala's powerful private sector, where it was claimed that the finance ministry was corrupt and inefficient, and that improved tax collection was needed rather than reform.

Congress has also blocked approval of relatively soft terms agreed between the government and Paris Club creditors last year, which must be ratified by next Tuesday.

Congress is now in recess and is not due to return until after Congressional elections, due to be held in August.

Ministers say they still hope for Congressional approval of the Paris Club deal in an extra session, but this would require political bargaining.

The private sector has long regarded tax increases as anathema to its interests, although Guatemala has one of the lowest taxation rates in the western hemisphere.

Economists say that, if no changes are made, the tax take will drop below 7 per cent of GDP, widening the fiscal deficit and jeopardising much-needed social investment.

Deutsche Telekom loses cartel case

By Andrew Adonis in London and Judy Dempsey in Berlin

Deutsche Telekom, the state-owned German telecommunications operator, has been seriously hindering competition in Germany's liberalising telecoms market through substantial cross subsidies from its monopoly businesses.

A six-month investigation by the Federal Cartel Administration in Berlin concluded that since 1989 Deutsche Telekom has channeled subsidies totalling DM1.9bn (£760m) into its data networks division.

The decision has far-reaching implications for Deutsche Telekom as it faces privatisation amid growing international competition. Deutsche Telekom still has 90 per cent of Germany's data networks market; in the other liberalised telecoms sectors of satellite and mobile communications rival operators have taken nearly half of the German market.

Data networks were liberalised in Germany in 1989, in accordance with European Union rules on telecoms liberalisation. But competitors have long complained that Deutsche Telekom was keeping them out of the DM800m-a-year market by subsidising data networks from its monopoly voice and leased lines businesses.

The Federal Cartel Administration has broadly upheld the complaints. "We proved how Deutsche Telekom had been hindering competition through providing hidden subsidies," the Cartel Office said yesterday. Its report is with the Ministry of Economy and the Ministry of Posts and Telecommunications.

An association of rival telecoms operators, which took the case to the cartel authority, includes British Telecommunications, AT&T of the US, and Unisource, a joint venture between the Swiss, Swedish and Dutch state telecoms companies.

"This is a landmark case in German telecommunications and business," said Mr Gerd Eickers, president of the association, saying it would send a "strong signal and incentive to all aspirants in the liberalised European telecommunications market".

Deutsche Telekom said it had yet to see the report, but claimed to be "confident" that significant changes to its accounting system made over the past two years, and others in train, would meet the complaints.

The Economics Ministry said the findings would not delay the privatisation of Deutsche Telekom. The governing Christian Democratic coalition has secured backing for the partial privatisation of the telecoms and postal services, although a flotation is unlikely before 1996.

However, the cartel report calls into question the capacity of Deutsche Telekom to meet early competition. Under existing EU rules its monopoly on basic voice traffic is protected until 1998. The cross-subsidy report also has ramifications for the Eculbn (£770m) joint venture between Deutsche Telekom and France Telecom, the French state operator, formed last December to provide data and other advanced services to multinationals.

The companies argued that the exposure of the data sector to competition justified their move to integrate their international data services. They are anxious to extend the alliance, but EU competition authorities may resist any further integration until competition is well established.

Peter Sutherland (right), head of Gatt, speaking to businessmen in Kuala Lumpur yesterday Reuter

Gatt chief answers critics

Mr Peter Sutherland, the director general of Gatt, has said that the idea that the recently concluded Gatt agreement would erode national sovereignty was "absolute nonsense" and that such sentiments must not be allowed to undermine the accord, writes Kieran Cooke in Kuala Lumpur.

Some members of the US Congress have said that a new World Trade Organisation (WTO), to be set up next year, will be like an "economic United Nations" in which the US could be outvoted by smaller countries.

Mr Sutherland, in Kuala Lumpur to attend a meeting of business leaders from around the Pacific, said it would be an act of the greatest folly if the recently concluded agreement was to be questioned in this way. "By any stretch of the imagination, sovereignty is not at issue. The WTO will not be an instrument of world government. It will in no way inhibit sovereignty."

Mr Sutherland said there was an urgent need for countries including the US to ratify the Gatt agreement.

Boeing looks east in project for smaller jet

By Paul Betts, Aerospace Correspondent

Boeing, the world's largest commercial aircraft manufacturer, is stepping up efforts to enter for the first time the market for smaller 70-100 seat jets.

The US group, which has traditionally dominated the large airliner market, is working with the Japanese and Chinese aircraft industries to study the development of a new commercial jetliner smaller than its current Boeing 737 family of 100-170 seat narrow-body aircraft.

Boeing yesterday said it had appointed Mr Richard James, its former vice-president of marketing for commercial aircraft programmes, to a new position of vice-president to study the development of a new small aircraft.

"His assignment will be to explore the market feasibility and structure of a new small aircraft programme," said Mr Ron Woodward, president of Boeing's commercial aircraft operations. Boeing said representatives from Japan Aircraft Industry and the China National Aero-Technology Import and Export Corporation had begun work with Boeing in Seattle to examine the market requirement and potential configuration for a new commercial jet aircraft slightly smaller than the 737.

The move is expected to intensify further competition in the small jet airliner market which is scrambling to restructure itself in the face of large-scale over-capacity in that sector. It would pitch the world's leading aircraft manufacturer against companies such as Fokker, British Aerospace and Saab in that market.

Boeing sees strong demand for smaller jet airliners emerging during the next 20 years in the Asia-Pacific region.

The small aircraft project will extend Boeing's close links with both the Japanese and Chinese aircraft industries. Japanese companies already participate on all Boeing airliner programmes, including the latest 777 wide-body aircraft, while China produces parts for the 737 and the 757.

NEWS IN BRIEF

TCI-Sumitomo in Japanese ventures

TCI, the US cable TV operator, and Sumitomo, the Japanese trading house, have agreed to set up two new joint ventures in Japan to operate cable TV companies and supply programme software, writes Michiyo Nakamoto in Tokyo.

The two companies will set up a cable TV operator to oversee the operations of Sumitomo's portfolio of cable TV companies in Japan as well as any others the company might acquire in the future. Sumitomo has an equity stake in 26 cable TV companies with a total of 132,000 household subscribers.

The other joint venture company will provide programmes to cable TV companies, take charge of the TV shopping business which Sumitomo and TCI are considering, and set up new TV channels.

The capital of the two new companies will total \$500m (£333.3m), with Sumitomo investing the bulk of funds and TCI investing up to the maximum allowed to a foreign company under Japanese law. Recent deregulation moves by Japan's Ministry of Posts and Telecommunications increased the permissible foreign equity level to one third. TCI intends eventually to raise its stake to 40 per cent, Japanese regulations permitting.

Nokia first for debut in Japan

Nokia, the Finnish telecommunications group, yesterday became the first European manufacturer to start selling cellular phones in Japan, write Michiyo Nakamoto in Tokyo and Christopher Brown-Humes in Stockholm.

It marks the entry of Europe's largest mobile phone manufacturer into the world's second-largest mobile phone market. It follows last month's deregulation when it became possible to sell mobile phones in Japan for the first time. Previously it was only possible to lease them.

The Finnish group has delivery agreements with two operators in Tokyo and Kyoto, with a third accord, in the Nagoya region, due to come into force in July. Last year Nokia and Mitsui, the Japanese trading house, established a joint venture to import Nokia's phones. Last week it signed up Casio, the maker of watches and calculators, to supply its customer support services.

Nokia expects mobile phone sales in Japan to reach between 1.3m and 1.4m this year, including 300,000 digital phone sales. It aims to capture around 25 per cent of the digital market.

Nokia share issue, Section II

US cinema offensive in China

American-style multi-screen cinemas, complete with popcorn, candy and arcade games, will be appearing soon in Chinese cities under a joint venture between two US companies and Chinese investors, Reuter reports from Los Angeles.

The joint venture will invest about \$100m (£66m) to build multiplex cinemas and entertainment centres throughout China, according to Mr Paul Broadhead, president of Paul Broadhead Interest USA, a co-founder of Cinemark, the fourth-largest US chain of cinemas, and Four Points Entertainment, a television production company. The intention is to have 150 to 200 screens over the next five years, said Mr Shukri Ghalayini, chairman of Four Points.

The venture first plans to renovate an existing cinema and entertainment complex, Asia Film Town, in Changzhou, an industrial city of 3.5m people. Asia Film Town, a three-year-old complex, has eight screens, with restaurants and shops built around a swimming pool.

Unctad's exporter database

The United Nations Conference on Trade and Development has launched an electronic pocket-book for exporters on CD-Rom, enabling users to call up comprehensive information on trade flows, tariffs and trade rules for more than 5,000 products in the world's main markets, writes Frances Williams in Geneva.

The CD-Rom version of Unctad's Trade Analysis and Information System (Trains) unites six separate databases and includes information on 50 markets accounting for more than 85 per cent of world imports. The Trains CD-Rom "has everything an exporter or negotiator needs to know about the market access conditions for a product," according to Unctad. CD-Roms contain up to 650 megabytes of information, equivalent to 450 normal computer diskettes, and the falling cost of CD-Rom drives (now less than \$400) has made the technology widely accessible. Unctad developed Trains initially for use by developing country governments. It covers tariff and non-tariff trade measures, including details of preferential schemes, detailed import data, names and addresses of importers for selected product categories and markets, and other general trade documentation.

● *Further information from Unctad/DMS/TRAINS, Palais des Nations, CH-1211 Geneva 10, fax 41 22 907 0051.*

Cuba sets \$1bn tourism target

The Cuban government has set new targets which indicate expectations of a significant expansion in tourism over the next two years, writes Canute James in Kingston.

It is expecting gross income from the sector to reach \$900m (£600) this year and \$1bn next year, Mr Osmany Cienfuegos, the tourism minister, told a recent conference on Cuban tourism. Gross income from the sector last year was \$720m, of which about one third represented net earnings. The government is hoping the volume of visitors will reach 1m by 1996, double last year's volume, the minister said. The island's stock of hotel rooms is being increased to meet the growth in visitor arrivals, with foreign investors involved in the construction and rehabilitation of 7,000 rooms. The expansion in capacity should lift the number of rooms to 50,000 by the year 2000, he said.

UK lags Germany on performance

By David Goodhart, Labour Editor

British manufacturers continue to trail their German opposite numbers in the training of technicians and the use of postgraduate engineers and scientists, according to an analysis of chemical and engineering companies in the two countries by the National Institute of Economic and Social Research.

In a survey, NIESR researchers found a bigger skills and performance gap in four pairs of engineering companies compared with three pairs of chemical companies.

The British engineering plants had improved productivity substantially over 15 years, but still trailed the German factories. They were also "followers" in technical innovation. "British price competitiveness still depends heavily on favourable movements in exchange rates," says the report.

By contrast, the analysis in chemicals pointed to a similar performance between the two countries. "Most British plants were at least equal to and sometimes ahead of their German counterparts in the use of new, sophisticated capital equipment".

The German plants were well ahead on shopfloor qualifications. In chemicals, 45 per cent of Germans had a craft apprenticeship compared with 23 per cent in Britian. In engineering the gap was wider, 57 per cent to 20 per cent.

These differences were even sharper at the intermediate-technician level, with virtually all German supervisors trained to *Meister* level and only 5 per cent of British supervisors with any specific training for their role.

The proportion of technical and higher degree graduates was similar in the chemical industry, but German plants had more than double the British level in engineering. Germany is taking more postgraduate students who are regarded by British employers as "overqualified" and lacking in commercial aptitude.

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'Rates must rise to keep inflation below 4% target'

By Gillian Tett, Economics Staff

Interest rates will have to be raised by a full percentage point within the coming months if inflation is to be kept below the government's target of 4 per cent, a leading economic research body warned yesterday.

Though raising rates might be politically unwelcome for the government, the new climate of openness means that the Bank of England increasingly has the upper hand in setting inflation policy, argues a report from the National Institute of Economic and Social Research. "The publication of the minutes of meetings between the chancellor and the governor . . . has left the government with surprisingly little room for manoeuvre," the report says.

"[The government] has allowed a situation to develop in which it is difficult for the bank's advice on interest rate moves to be rejected," the report says, pointing out that the bank itself is increasingly inclined to approve increases in interest rates.

Factors that will persuade the bank to raise rates before the end of the year are the growth in earnings and money supply, the report suggests. Average earnings have grown at a slower than expected rate, but are expected to grow by 3.5 per cent this year and 5 per cent next year. Meanwhile M0, which has been growing by 6 per cent, is expected to continue rising well above the government's 4 per cent monitoring range.

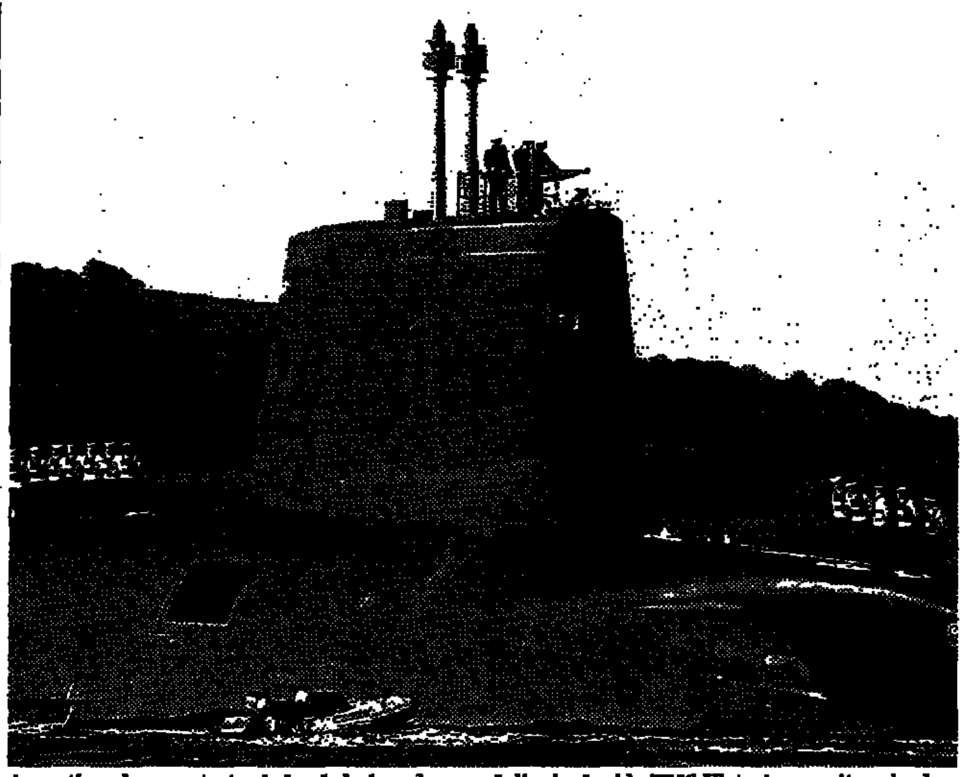
These factors have not triggered inflation yet, says the institute, which admits that its own inflation predictions – among the gloomiest in the City – have become more optimistic since February.

It says inflation will only rise a "little over the next year or two", from its current underlying 2.3 per cent, if base rates are brought in line with the level of interest rates now expected in the markets.

But with the markets now assuming that interest rates will rise to 6 per cent by the end of the year, and 7 per cent by 1995, this implies a significant rise from their current level of 5.25 per cent, it points out. This rise will have to occur within 12 months.

These interest rate rises should not seriously affect recovery, the institute says.

● The UK's gross domestic product grew by 0.7 per cent in real terms in the first quarter of 1994, confirming earlier estimates, the Central Statistical Office reported yesterday. A CSO review of trade statistics, which reduced the volume (although not the value) of imports last year, has resulted in estimates of 1993's GDP growth being revised upwards from 1.9 to 2 per cent.



An anti-nuclear protester is hauled aboard a naval dinghy beside HMS Victorious as it arrived on the Clyde in Scotland yesterday. The second of four Vanguard class submarines to be built by Vickers, it can carry up to 16 Trident missiles. There will be a programme of trials before it is formally accepted by the Royal Navy from its makers Photograph: Reuter

BAe wins missile order

British Aerospace Defence has won a new government order for its advanced short-range air-to-air missile worth £66.5m, writes Bernard Gray.

The original £570m development and production order for the Asraam was placed with BAe two years ago and included a fixed-price option for a further batch of missiles which the ministry picked up.

Asraam is the only replacement under development for the Aim-9 Sidewinder missile. BAe is in partnership with Hughes of the US to try to meet the Pentagon's requirement for a replacement.

The deal is not expected to affect the negotiations between BAe and Matra of France over the merger of their missile businesses.

● The Ministry of Defence yesterday placed an order worth more than £20m for submarine command systems – to be installed in Trident ballistic missile submarines and retrofitted to the Trafalgar and Swiftsure classes – with electronics specialists BAe Sema of New Malden, Surrey. This follows BAe Sema's success last week in winning contracts for its surface ship control system for the new frigate for the Korean navy worth £36m.

Britain in brief

New Labour leader sought by July 21

Labour's national executive committee threw the party's leadership election wide open yesterday by inviting a challenge to Mrs Margaret Beckett, deputy leader.

The surprise decision, taken at Mrs Beckett's request, opens the way for her to join up to five other candidates in the race to succeed Mr John Smith as leader. It also raises the prospect of a contest for both jobs between teams linking candidates from the party's "modernising" and traditional wings.

The new leadership team will be declared on July 21 after a six-week campaign and a postal ballot involving up to 4.3m party members and trade union supporters.

But the NEC will not accept nominations until after the European election on June 9, suggesting that Labour is in for at least a fortnight of backstage manoeuvring by potential candidates.

Banks warned of risks

The Bank of England has warned merchant banks of the growing risks of being sued or suffering damage to their reputation as a result of advising companies on mergers and acquisitions and restructurings.

The bank disclosed its supervisors had discussed risks with merchant banks after cases such as Samuel Montagu being ordered to pay £172m to the creditors of the collapsed financial group British & Commonwealth Holdings.

It disclosed the action in its 1993-94 Banking Act report, which said merchant banks' role in takeovers, new issues and corporate restructurings "makes them especially vulnerable to litigation and loss of reputation".

US man holds Sinn Féin talks

A senior Irish-American businessman is holding informal talks with Sinn Féin, the political wing of the IRA, in an effort to bring about peace in Northern Ireland.

Mr William Flyn, president of Mutual America, one of the biggest US insurance companies, has renewed contact with Sinn Féin while on a visit this week to Dublin and Belfast. Mr Flyn is part of a delegation of Irish-American businessmen discussing investment on both sides of the Irish border with officials and local enterprises. He is understood to have used the visit to try to persuade Sinn Féin of the growing support within the Irish-American community for the UK-Irish peace initiative.

Consumer debt arrears fall

Consumer debt arrears are falling, according to a survey published by Infolink, the credit information group.

The survey found 7.6 per cent of instalment credit accounts in arrears in the first quarter of 1994, compared with 10.1 per cent in the first quarter of 1993. The proportion of accounts significantly in arrears – three months or over – fell from 4 per cent to 3.6 per cent over the same period.

Few checks on benefits claims

The Benefits Agency pays social security benefits worth more than £800m a year to people living abroad without regularly checking that they are still alive, the National Audit Office says.

According to the public expenditure watchdog, a spot check last year into the eligibility of 7,700 pensioners and widows led to the suspension of payments to a fifth of those contacted. The agency pays benefits and pensions to 680,000 people overseas, almost half in Australia, Canada and the US.

Most other countries regularly check the eligibility of claimants abroad and send out "life certificates" requiring them to attest to the fact they are still alive.

Nuclear cost-cutting

British Nuclear Fuels plans to cut a third of its workforce at its Sellafield reprocessing plant in Cumbria over the next five years. The company said it had to cut costs by 20 per cent or £100m a year for the next five years to remain competitive.

Fall in fraud convictions

The conviction rate of the Serious Fraud Office fell to 59 per cent in the year to April from 71 per cent in 1992-93.

After another controversial year in which the office was criticised for its handling of the prosecutions of Mr Asil Nadir, former Polly Peck chairman, and disgraced financier Mr Roger Levitt, the office said it should be judged on its overall performance.

During the year 23 trials were completed involving 54 defendants and in 20 of them one or more of the principal defendants had been convicted. Of the 32 convicted, 12 pleaded guilty and 25 received custodial sentences.

Tourism move

The Confederation of British Industry employers' organisation has admitted that it has paid insufficient attention to the industry in the past and is setting up a Tourism Action Group to raise the industry's profile.

The CBI said tourism employment grew by 31 per cent between 1983 and last year, well above the rate for the economy as a whole. Tourism was one of the country's leading industries, with annual revenues of £29.6bn, accounting for 5.6 per cent of gross domestic product, and earning £10bn in foreign exchange a year. It employed more than 1.4m people – 6 per cent of UK employment.

The industry worldwide was expected to double in size by 2005, but although the UK was the world's sixth-biggest earner of tourist receipts, its US dollar market share had fallen from 6.8 per cent in 1980 to 4.2 per cent today.

'UK needs culture of improvement'

The government's long-awaited policy document on boosting competitiveness promises to raise education and training standards and provide a better climate for business. **David Goodhart** reports

Scattered through the 163 pages of the government's competitiveness white paper is a frank assessment of the UK economy's relative standing.

The authors say: "The white paper sets out the government's view of the UK's competitive position. It provides, in a timespan outside the normal cut and thrust of party politics, an assessment of the UK's relative strengths and weaknesses – those factors which fundamentally determine a nation's international standing."

Therein lies its originality. As the paper itself acknowledges, most of the policy discussion describes initiatives which the government has already announced. But governments, especially those which have been in power for 15 years, are not in the habit of subjecting themselves to a critical audit.

The paper also stresses that the white paper will be updated and that the ministerial group on competitiveness, which has helped to draw it up, will remain in existence.

"At the head of this approach is a recognition that the UK needs a culture of continuing improvement. Competitiveness is dynamic. We cannot ever afford to stand still," the paper says.

The authors have had to negotiate a fine line between being honest about the UK's problems while remaining positive about how they have been tackled over the past 15 years. Similarly, they have attempted to justify limited intervention by the government without undermining the government's belief in free markets.

The economic landscape, says the white paper, is changing before our eyes. The economies of the countries in the Organisation for Economic Co-operation and Development now produce only around half of world output as the non-OECD countries, such as the Asian "tigers", catch up. "Hong Kong and Singapore now have average incomes which match those of the UK."

International trade has been one of the main forces behind growth since the second world war. Trade barriers are continuing to fall. These changes will increase living standards throughout the world but also increase competition. "The rapid spread of capitalism, the opening of closed economies and the removal of rigid systems of central planning could bring a low-cost labour force of 1.2bn people on to world markets as producers as well as consumers."

Advances in technology and communications, and rapid changes in demographic structure, will also shape economic growth in the coming decades.

Amid these changes, what does it mean for a nation to be competitive? The paper quotes approvingly the OECD definition: ". . . the degree to which a nation can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term".

The analysis then traces the weaknesses in UK performance back to the end of the 19th century. After 1945 Britain's standard of living rose faster than ever before "but other countries did still better".

The 1980s saw a marked improvement. "Manufacturing productivity grew faster than the US, France and Germany. Our share of the volume of world trade stabilised after decades of decline. Our overall growth rate was similar to France, Germany and Italy. The climate of industrial relations was transformed... There was also a dramatic rise in the number of small firms. At the end of 1991 there were 900,000."

But there are no grounds for complacency. "The improvements of the 1980s mean that we are now back in touch with the leaders, but there remains a lot of ground to make up . . . Although we have many world beating companies, average productivity levels in manufacturing have not yet risen to those of our major competitors . . . And our overall share of world trade in services has continued to fall." GDP per head placed the UK in 16th position in 1993 among OECD countries, up from 18th position in 1991.

Is manufacturing special? The paper says that all sectors of the economy are important but continues: "A competitive manufacturing sector is essential for our long-term prosperity . . . Manufacturing is a major employer and a 1 per cent change in exports of manufactures would be balanced by a 3 per cent change in the exports of services."

What is the government's role? "Business – not governments – create wealth . . . The government's role is to create the conditions in which firms throughout the economy can improve competitiveness by providing the stable macroeconomic environment which enables business to plan ahead with confidence, making markets work more efficiently and broadening the influence of market disciplines on resource allocation, pursuing tax policies which encourage enterprise and do not hinder economic efficiency, and improving value for money in those services which are best provided by the public sector."

That is not all. A interventionist passage talks about regulating to reduce uncertainty and adds: "Where markets do not work well in delivering the goods and services that people want, the government has a positive and pro-active role to play. It has a central role in areas critical to the process of wealth creation."

The paper goes on to justify government intervention in education, funding research and development, the supply of capital to small companies, removing barriers to employment and encouraging employers to train their workforces.

The section on education and training and the section on management contain the white paper's sharpest criticism of past UK performance. "We have to develop the self-confidence and self esteem which make good citizens and good workers.

"We have to demand respect and rewards for vocational education and training as well as academic study. Above all, we have to give all our people – not just some of them – every opportunity to give of their best... For too long the UK's levels of participation and achievement have dragged us down the international education and training league."

Employment, by contrast, is largely a success story according to the white paper. Industrial relations has dramatically improved and the labour market is more flexible. There are worries that unemployment remains "uncomfortably high" and that earnings grew faster than justified by improved performance in the 1980s.

But the paper says the position is improving on both fronts and that low non-wage labour costs remain an important competitive advantage.

On management and innovation the paper says that, by any standards, the management of some UK companies equals or exceeds that of its international competitors. "But overall national performance is determined not by the standard of the best but by the average. It is here that the UK lags behind the competition."

On innovation, too, while some companies and sectors are world class, too many are not. The need for improvement shows in a number of ways: "Total UK expenditure on research and development has declined relative to our main competitors . . . The UK has a declining share of US patents . . . Technical qualifications tend to be less common and less well rewarded than in other countries."

On finance for business the paper says the UK financial system is among the most sophisticated in the world but adds "there have been expressions of concern over the supply of finance to industry". The tone here is neutral – the government reporting complaints rather than endorsing them – and includes: inflexibility in dividend payments; excessive reliance on overdrafts; small businesses complaining that banks place too much emphasis on security; and late payment.

On the European dimension, the paper praises the European Union's single market initiative but warns that the EU is becoming over-prescriptive in some areas.

In conclusion the paper states: "This white paper is, in effect, a snapshot of the work in hand across government. It shows a formidable agenda of action and initiatives. It reveals the comprehensive nature of the government's work and how it can support wealth creation."

Samuel Brittan, Page 14

COMPETITIVENESS CHECKLIST

EDUCATION AND TRAINING
- £300m-worth of new measures to strengthen vocational training and education
- A new general diploma at 16 and new vocational options will be developed
- £100m for better careers guidance and work experience
- £100m for new accelerated apprenticeships for people aged 18 to 19
- £60m to train up to 24,000 workers in small companies
- Consultation on credits for 16-to-19-year-olds to purchase their own education

BUSINESS LINKS
- Business links scheme to be extended to provide back-up in the area of export, innovation, technology and design
- Export consultants and innovation and technology counsellors to be placed in 70 business link centres

INNOVATION
- Innovation credits for small companies to encourage use of outside experts
- New initiatives to strengthen links between universities and business
- Six sectoral groups will be set up to work with the City to improve the flow of finance for innovation

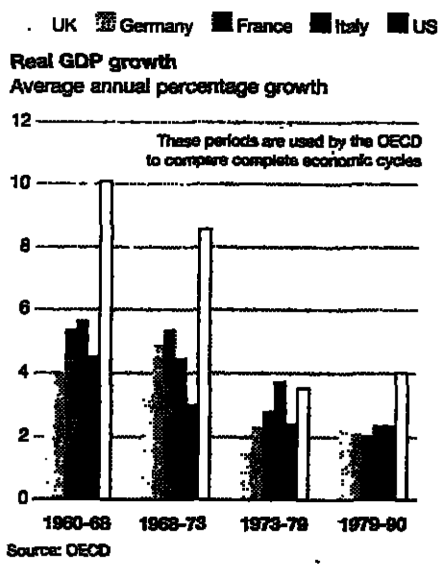
LATE PAYMENT
- Government departments to follow the CBI employer organisation's late payment code
- Annual reports to include companies' payment record
- Review to strengthen the informal small claims procedure

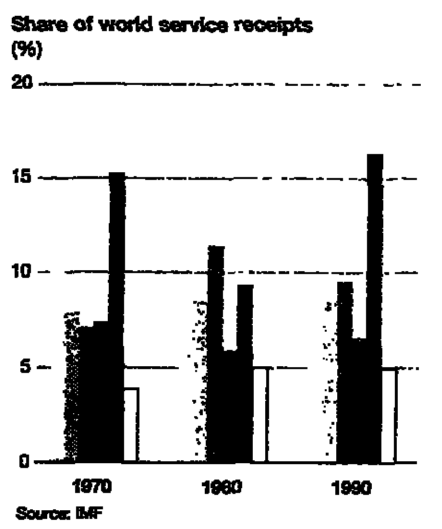
BUSINESS FINANCE
- Business angels scheme to be boosted

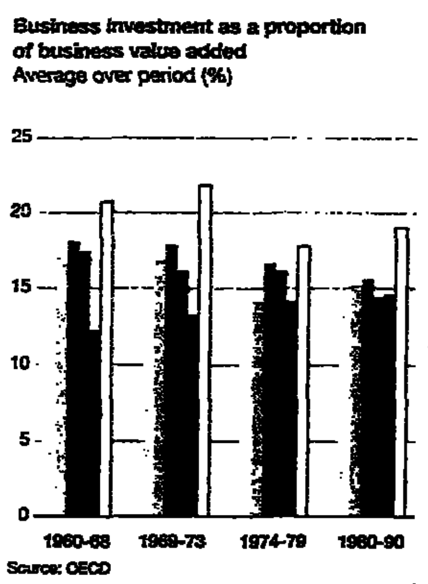
REGIONAL AID
- To allocate more of the regional aid budget via competitive tendering

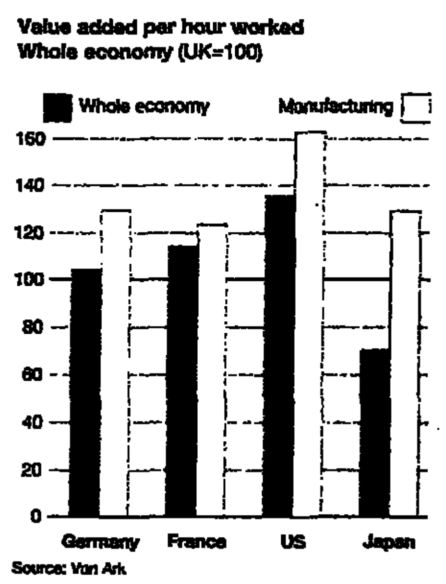
TRANSPORT
- Proposal to privatise the National Air Traffic Services
- A competition for privately financed trains for London Underground's Northern line

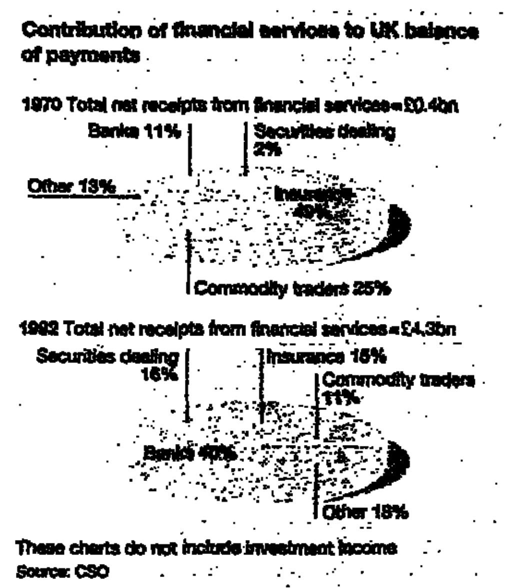
DEREGULATION
- Acceptance of Health and Safety Commission's recommendations to remove 40 per cent of regulations affecting business
- A consultation on simplified arbitration law and on increasing size of companies qualifying for accounting disclosure concessions











MANAGEMENT: MARKETING AND ADVERTISING

Alison Smith on why disclosure can be a virtue for insurers

Facing up to life's problems

Life insurance companies face a huge challenge next year when the UK's new regulatory regime for the industry comes into effect. But according to the organisers of a seminar in London today* the mandatory disclosure of commissions and other policy details should be seen as a marketing opportunity, not a threat.

The Securities and Investments Board, the City's chief regulator, has made compulsory from January 1 both the design and the use of a "key features" document giving details of costs, charges and the risks in taking out a policy.

Companies' responses to this new demand – how they redesign their products, for example to spread charges and commissions, and how they incorporate the new document into their agents' sales pitch – will be a sign of how flexible they really are.

Many life companies have previously regarded new regulatory requirements as part of their problem rather than part of any solution. So it is perhaps quixotic of marketing consultants Bamber Forsyth, which together with Courtyard City Services is staging the free lunchtime seminar, to seek to persuade them that they can use the change to improve their contact with customers.

The presentation will include some marketing jargon. There will be talk, for example, of customers going on "information journeys": either a "horizontal" one – often the company's vision of what happens, in which they see a range of branded leaflets – or a "vertical" one – in which information comes from more varied sources.

There will also be some statements of the seemingly obvious, but on the whole the seminar should raise some valid issues at a time when much of the life industry would be unwise to reject any offers of help.

Peter Kelly, a financial communications consultant taking part, says companies need to be positive and that the sales force should not see compliance as just a mass of detailed requirements to be met. "The life insurance industry is nowhere near as good at communication, especially internally, as it thinks it is," he says.

Compliance can be presented to the customer as a sign of a powerful and client-friendly organisation.

Anne McCrossan of Bamber Forsyth argues that one of the effects of disclosure will be that products will become less easy to differentiate: companies should therefore take the opportunity to develop more strongly their corporate values in communicating with the client. "It's a question of how good customers feel about the company as well as the product."

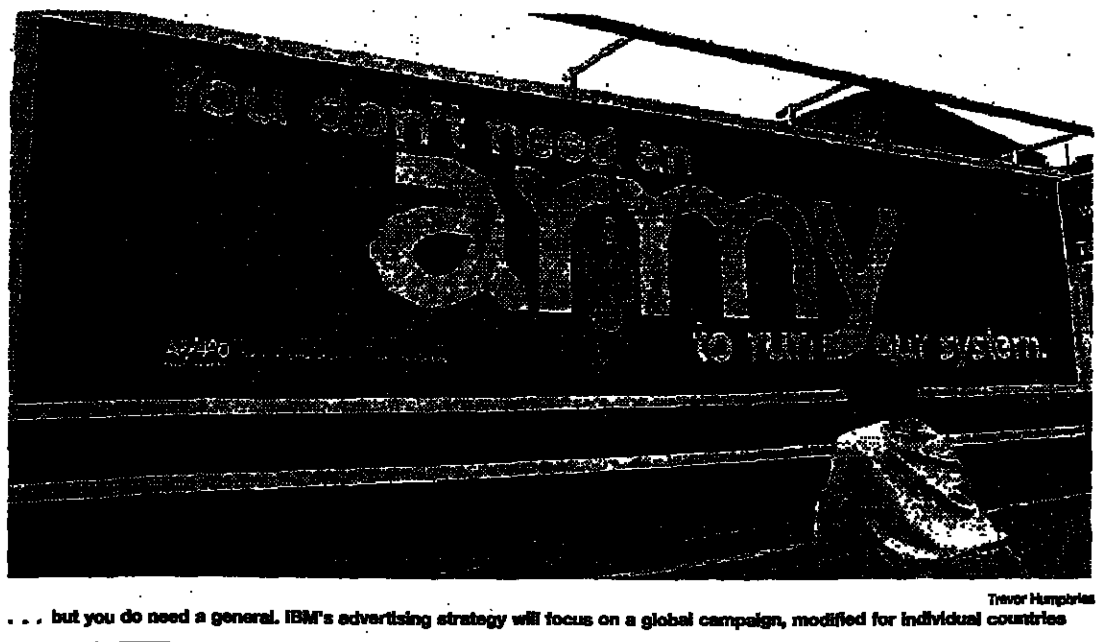
The need to develop corporate branding applies not just before the sale but also afterwards. Keith Bamber cites a company whose after-sale material was so forbidding that sending out the annual statement acted as a trigger for policies to be cashed in. He argues that branding should be more powerfully reflected in the papers sent to an investor after buying a product.

"Retention of customers has to be paramount," he says. Companies will need new sales strategies to address this, including greater integration of the promotion and administrative functions. The clear language of the compulsory SIB document will put the onus on companies to spell out equally clearly the benefits of taking out a policy.

"The company has to do something just as strong, simple and understandable about what it is offering, and the kind of company it is," says Kelly.

While the overall message is that the new regime can work positively for life companies, other conclusions are more chilling: Bamber Forsyth says there is high cost to getting it wrong and warns that "disclosure can dominate even if you bury it".

**The seminar takes place at the Institute of Directors, Pall Mall, London from 12.30pm.*



. . . but you do need a general. IBM's advertising strategy will focus on a global campaign, modified for individual countries Trevor Humphries

Forty into one does go

Diane Summers looks at why IBM is putting all of its advertising eggs into Ogilvy and Mather's basket

You don't need an army to run our system.

The slogan, featured in the latest poster advertising of its AS/400 computers, belongs to International Business Machines. But as of next month it could just as easily be applied to the running of the computer giant's own world-wide advertising.

In a move which took the ad industry by surprise on Tuesday, IBM announced that it would be sacking its 40-plus advertising agencies around the globe and giving all the work to a single agency, Ogilvy and Mather. Estimates of IBM's annual advertising spending – unconfirmed by the company itself – range from $300m (£200m) to $500m.

The rationalisation follows plans announced earlier this month to shake up IBM's 40,000-strong marketing and sales force. Lou Gerstner, chief executive, intends to cut across the existing geographic organisation and form 14 teams, each covering a specific industry segment. All the upheavals are part of the company's desperate attempt to regain ground lost to rivals and restore profits, following three years of losses.

Companies everywhere have been cutting the number of their suppliers – be they advertising agencies or providers of goods and other services – in recent years. What is remarkable in this case is the extreme to which IBM has gone in placing all its advertising with a single agency. Says Abby Kohnstamm, IBM vice-president for corporate marketing: "There is a trend among many companies we have looked at to have as few agencies as possible as their partners. But I'm not sure any have taken it to the degree we have."

According to Dominic Mills, editor of the advertising trade journal Campaign, IBM's move is a "reaffirmation of something Martin Sorrell [chief executive of WPP, O&M's parent company] has always preached, which is one-stop shopping – you can get everything you want from one agency network".

But while it is possible to point to other companies going in the same direction as IBM – Mills cites Reebok, the sports shoe manufacturer, for example – he also says there are companies taking the opposite path and decentralising. "Coke, for example, traditionally only used McCann-Erickson, now it uses a number," he says.

Now that IBM has a single world-wide network at its disposal, it can be expected that global advertising for the IBM brand will emerge. Kohnstamm says that the intention is for there to be an overall international campaign, modified as necessary for each country. Beneath that, there will be more localised advertising for specific products.

There are dangers inherent in this global approach, as Maurice Saatchi, chairman of Saatchi & Saatchi, pointed out in a speech in London recently. "How do you communicate to lots of different people in all these different countries across the world without being so bland and jelly-like that you have nothing real to say?" he asked.

Charlotte Beers, O&M chief executive, acknowledges that global campaigns are "the most challenging of all tasks because you must reach for a common denominator and yet never violate significant cultural differences". But she nevertheless believes that it can be done, pointing to her agency's work for Unilever on its Ponds skin care range. "The idea was developed in Paris, refined in London and has now been taken to 43 countries with major market share success. The same thing has been done with the Ford Mondeo," she says.

Maurice Saatchi also points to the organisational challenge for an agency of running offices all over the world. Networks "mean co-ordination, which often means committees – not the best environment for inspired creativity", he said. The organisational challenge, both for O&M and IBM, is not underestimated by either party. Shelly Lazarus, head of O&M's North American operation, says she is putting together a worldwide team to bear responsibility for the IBM brand. There will also be a regional O&M team in Paris relating to IBM's head of communications in Europe, and similar teams for Latin America and Asia Pacific – the latter will operate from Tokyo. These will be in addition to all of the national offices which both IBM and O&M already operate.

O&M is ideally placed for the job, in Mills' assessment. "There's a cultural fit – both are powerful brands, with long traditions and big global operations."

Overall, he sees the move to a single agency as positive for IBM. "It has the reputation of being a really bad client, with the left hand never knowing what the right hand was doing – hence 40 agencies producing what were potentially very discordant messages about IBM," he says.

The financial rewards for the agency, and parent WPP, are as yet unclear. Neil Blackley, media analyst with Goldman Sachs, says it will cost the company money in the first half of the year. "It's pain and then, hopefully, pleasure down the road," he says. There will also be some account losses within the agency – Microsoft and Compaq business, for example, will have to be jettisoned because of conflicts of interest. And what has been O&M's gain has been some loss to sister WPP agency J Walter Thompson, one of the 40 agencies to be crossed off IBM's list.

But these minor points will not be uppermost in Sorrell's mind. For him the IBM victory is particularly sweet. When WPP took over J Walter Thompson in 1987, it also inherited a smaller subsidiary called Lord, Geller, Federico, Einstein. The agency was well-respected and held a number of prestigious accounts, including IBM. After defections of a number of key personnel, financial claims by Sorrell and counter-claims by the defectors who formed a rival agency, a court settlement of $7m was accepted by WPP. The IBM account was lost to both agencies and Sorrell has had to wait until now to see it return to the fold.

Yabba dabba deals

The formidable marketing machine behind *The Flintstones*, which premieres in the US tomorrow, is getting into gear. Even if you never see the film – which opens later this summer in Europe and Asia – it will be hard to escape the promotional blitz.

Amblin Entertainment, Steven Spielberg's production company, estimates that more than $100m (£67m) will be lavished on marketing, more than twice what was spent on *Jurassic Park*. The *Flintstones* film is based on the 1960s cartoon series of life in prehistoric Bedrock. The series holds cachet with US babyboomers, and viewers in countries such as Britain, Mexico and Japan, where re-runs have been playing for years.

The toy maker Mattel has signed a deal with Amblin for a new line of Flintstones dolls, including the Talking Fred. Actor John Goodman, who plays Fred in the movie, has been taking the doll with him on television appearances.

Flintstones songs have already become hits. The rock group the B-52s, which appears in the film as the BC-52s, has two new singles out: its version of the Flintstones theme song and "Bedrock Twitch".

McDonald's has traded in its golden arches in the film for dinosaur tusks, and has been re-christened Rocdonald's. In exchange for the cameo, the food chain has launched what it calls its biggest promotion. McDonald's will be selling Flintstones mugs and t-shirts in 38 countries.

Left-over products from the cartoon era will receive a free ride from the promotion. Turner Entertainment, which owns the animated series, is receiving heavy play on television.

The ultimate success of the Flintstones products depends on how much enthusiasm the film generates at the box-office. In a few months, executives involved in the promotion may either be crying in their dinosaur milk or yabba-dabba-doing all the way to the bank.

Victoria Griffith

PEOPLE

Knapton quits Lazards for L&G

Peter Knapton, who had stayed a brief year as chief investment officer of Lazard Brothers, has quit to become managing director of the securities side of Legal & General.

David Rough, group director of investments, had previously been doing the job himself. However, he is effectively number two to chief executive David Prosser, according to Knapton, and the company reckoned it needed someone specifically to manage the group's quoted investments and to chair the investment strategy committee. The heads of the property and venture capital divisions also report, alongside Knapton, to Rough.

Knapton says the headhunters were "reasonably persuasive" and claims he was enjoying himself at Lazards. "Jobs like this don't come up very regularly, and when they do, the timing is never going to be ideal," says the father of seven daughters.

However, the rest of the industry suspects that he had yet to fit into the cliquey senior management at Lazards – which has, moreover, struggled to become anything other than a niche player in the investment business: it has £5bn under management.

Legal & General is one of the biggest passive fund managers in London – with group investments under management of £30bn plus. Knapton says his task is not to lead it, say, aggressively into active techniques. His preferred style is not to "come in and shake things up" but rather to "try to build a team of people who work well together. Legal & General has a perfectly reasonable track record and perfectly reasonable people."

While his first job in the City was with National Provident, he had stayed away from insurance companies until now. He came to Lazards from Invesco.

Non-executive directors

Peter Davis, 51, chairman of Reed Elsevier, is to be appointed a non-executive director of Prudential Corporation, the UK's largest institutional investor. He fills one of the vacancies on the board left by the retirement of Sir Alex Jarratt, a former chairman of Reed International, Mary Baker, president of Women in Management and wife of Tory MP Kenneth Baker, and Brian Medhurst, head of the Prudential's international division.

Davis (above), who joined Reed the year after Sir Alex retired as chairman, is the latest addition to a younger and smaller Prudential board which includes Andrew Teare, chief executive of English China Clays, and Niall Fitzgerald, a vice-chairman of Unilever.

■ August van Oostveen, former md of Robeco, at MARTIN CURRIE EUROPEAN INVESTMENT TRUST.
■ Lawrence Urquhart has resigned from PREMIER CONSOLIDATED OILFIELDS.
■ David Hartley, who has a substantial shareholding, at TOYE AND COMPANY; Sir David Rowe-Ham has resigned.
■ Robert Wilkinson, former director of surveillance at the London Stock Exchange, and Odo Haitink, former deputy chairman of the executive board of National-Nederlanden, at INVESCO EUROPE.
■ Derek Bourdon is retiring from LONDON AND MANCHESTER GROUP.
■ Reinaldo Filardi has resigned from OCEAN WILSONS HOLDINGS.
■ Peter Pollock, former group chief executive of ML Holdings, at PLATIGNUM.
■ Richard Good, retired director of Keyser Ullman, at LONDON FINANCE & INVESTMENT.
■ Antoine Lafont, a consultant with Lazard Freres, at The BROCKBANK GROUP.

Bodies politic

■ Patrick Galvin, chairman and chief executive of Waterford Wedgwood, has been appointed to the court of directors of BANK OF IRELAND.
■ Bill Latto, md of Balfour Beatty Building, has been elected chairman of the BUILDING EMPLOYERS CONFEDERATION National Contractors Group.
■ John Pitts, a director of Taylor Woodrow Construction Southern, has been elected president of the London region of the BUILDING EMPLOYERS CONFEDERATION.
■ Michael Cooling, corporate relations manager of Reuters Holdings, has been elected chairman of the INVESTOR RELATIONS SOCIETY.
■ Tony Cash, md of Weidmuller (Klippon Products), Noel Davies, chief executive of VSEL, Anthony Fuller, chairman of Fuller Smith & Turner, Roy Hitchens, chief executive of Staveley Industries, Paul Lester, chief executive of Graseby, Ernie Thompson, chief executive of the Society of Motor Manufacturers and Traders, and Hugh Williams, chairman of Canford Audio, have been appointed members of the CBI's national council.
■ Julian Mines, formerly a regional adviser for Business & Technology Education Council, has been appointed director of INDUSTRY IN EDUCATION.
■ Liam Donaldson, formerly director of public health of the Northern Regional Health Authority, has been appointed regional general manager of the merged NORTHERN AND YORKSHIRE REGIONAL HEALTH AUTHORITY and also regional director of the Northern and Yorkshire office of the NHS Executive.
■ Robert Burns, chairman of RHB Holdings, has been elected chairman of the executive committee of the WORLD TRAVEL AND TOURISM COUNCIL.

■ **Robert Mapstone, currently head of equity derivatives at NatWest Markets, is to join Nomura International in London to lead its equity trading and risk operations.**

He will be responsible for Nomura's equity trading in Europe, including both derivative and cash products, and Nomura's international stock-lending activities. He will report to Basil Postan and Toshihiko Matsunaga, co-heads of Nomura's European equity division.

"Trading is critical to the future development and profitability of our equity business," says Postan. Nomura is delighted, he said, to have attracted "someone of Mapstone's talent and experience to pull all these elements together".

Mapstone, 33, has worked in the equity derivative markets since 1982. He was head of European equity derivatives at S.G. Warburg before joining NatWest Markets in 1989.

Noble: realistic with the actuality

Skye Bridge Ltd, developer of the highly unpopular toll-bridge which next year will eliminate the ferry trip across the Kyle of Lochalsh to Skye in Scotland, has persuaded Sir Iain Noble, one of the project's most authoritative critics, to become its chairman.

Noble, who is an Edinburgh merchant banker (he co-founded Noble Grossart and chairs Noble & Co), owns an estate on Skye and is a Gaelic speaker, still thinks the bridge is a waste of the government's money on a non-essential project. Although Skye Bridge, a consortium of [the construction companies] Miller Group and Dywidag [of Germany] and Bank of America, is financing the bridge and will recoup the £17m construction cost from tolls, the Scottish Office is spending £6m on the connecting roads.

"The ferries are the most efficient and cheapest way of crossing to Skye," says Sir Iain. "The government will lose the profit which Caledonian Macbrayne makes on them, and about 30 ferrymen will lose their jobs. With tolls on the bridge the highest in Europe (£5 for a car), it's not surprising it's unpopular."

So why take on the job? "You can't spend your life girning (moaning) about what's done," says Noble. "The bridge is now an actuality. What we must do is make it an important Skye-based business. Yes, I can imagine all the brickbats that will be thrown at me. But the tolls are set by parliament. People should work on their MPs to get them reduced or abolished."

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 26.05.94: Pool purchase price £/MWh	Final Prices for Trading on 25.04.94: Pool purchase price £/MWh	Final Prices for Trading on 25.04.94: Pool selling price £/MWh
0030	11.00	11.00	11.00
0100	10.97	11.00	11.00
0130	11.00	11.05	11.05
0200	14.86	11.15	11.15
0230	14.88	11.18	11.18
0300	14.88	11.18	11.18
0330	14.88	11.17	11.17
0400	14.88	11.06	11.06
0430	11.00	11.05	11.05
0500	11.00	11.00	11.00
0530	13.28	10.92	10.92
0600	11.73	10.85	10.85
0630	11.66	11.00	11.00
0700	27.42	12.70	12.70
0730	23.28	20.15	22.71
0800	27.48	24.28	26.84
0830	38.90	41.45	44.03
0900	38.97	41.49	44.08
0930	38.89	41.48	44.07
1000	39.92	41.47	44.08
1030	39.93	26.78	29.38
1100	40.71	24.27	26.84
1130	44.61	24.27	26.84
1200	48.21	24.26	26.83
1230	48.16	24.25	26.82
1300	48.07	24.23	26.80
1330	40.08	24.13	38.69
1400	27.45	23.42	25.97
1430	27.44	21.09	23.64
1500	31.80	21.09	23.64
1530	31.88	21.09	23.64
1600	27.44	21.09	23.64
1630	28.01	23.42	25.98
1700	35.06	27.30	29.85
1730	35.05	35.45	38.01
1800	27.43	35.45	38.00
1830	27.42	21.09	23.64
1900	27.42	17.84	20.50
1930	27.42	20.14	22.70
2000	27.42	12.70	12.70
2030	25.76	17.94	20.50
2100	27.40	30.66	33.22
2130	29.50	35.00	37.55
2200	29.50	35.00	37.55
2230	27.40	30.66	33.22
2300	27.40	13.43	15.98
2330	21.98	12.70	12.70
2400	20.89	11.05	11.05

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.66/MWh becomes 1.866p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements, & is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 8.00am and 6.00pm Monday to Friday.
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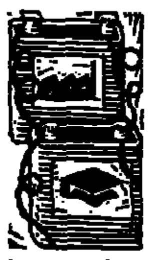


"My generation saw this country grow from sand dunes into a garden and then into an industrial state. As modern Zionists, we want our country to excel in high-tech and scientific achievement."

- Dan Propper, president Israeli Manufacturers' Association.

Israel is learning fast how to exploit its technical skills, writes **Peter Norman** in a continuing series on research

From sand dune to science park

Propper need not worry. Israel already appears to be one big science park and is learning fast how to exploit and commercialise its scientific expertise.

More than 60 per cent of Israeli university students graduate with degrees in science-based disciplines. Israel has the highest ratio of scientists and engineers to population in the world. Its expenditure on research and development, at about 3 per cent of gross domestic product, is proportionally higher than the US, Japan and the other Group of Seven leading industrialised countries.

The country's Ministry of Trade and Industry has a battery of statistical superlatives at hand. No fewer than 135 scientists and engineers per 10,000 inhabitants are engaged on R&D against 70 in the US, 65 in Japan, 48 in Germany and 28 in the UK. Israel's natural scientists and engineers produced 61 papers of published research per 10,000 of the labour force in 1987, about twice the rate of the US, Britain and Canada and more than four times that of Japan.

This performance predated recent immigration from the former Soviet Union which has increased Israel's population by a tenth and further enhanced its scientific potential. About 36 per cent of the 550,000 mainly Russian immigrants since 1989 have scientific occupations and 53 per cent have more than 13 years of schooling.

But it is only since the mid-1980s that Israel has focused on turning its formidable R&D potential to commercial ends. An increasingly open economy and the gradual lifting of the threat of war have encouraged researchers and companies to explore peaceful uses for many of the technologies developed when the nation's existence was under threat. This potential has been boosted by improvements in the Israeli approach to marketing – a traditional area of weakness – and the greater availability of start-up finance and venture capital after the "discovery" of Israel by foreign investors.

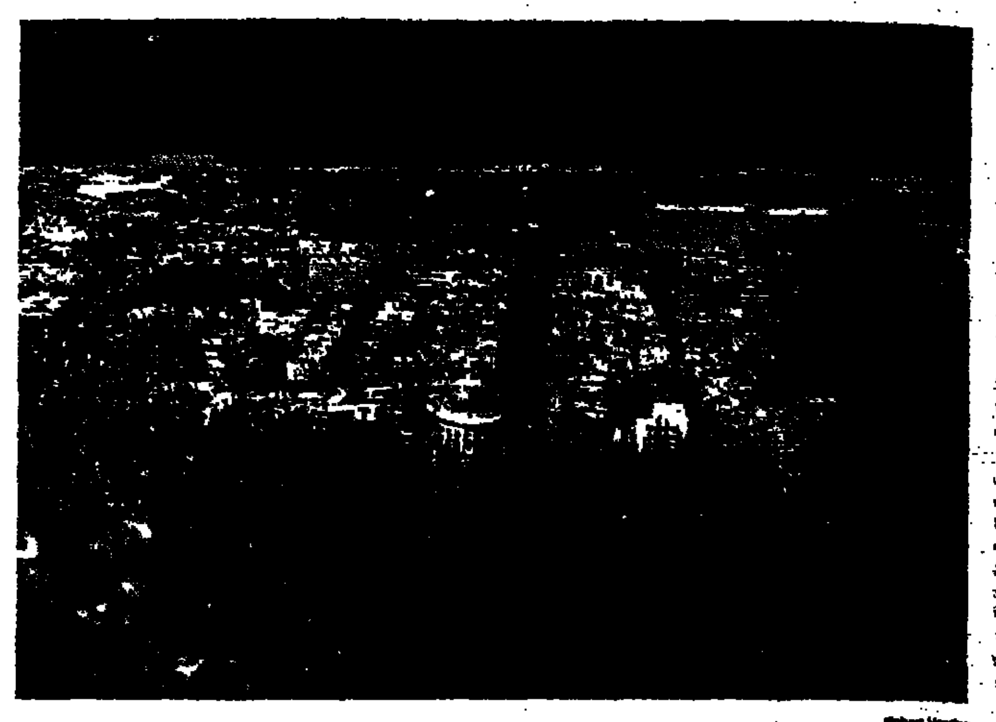
The government has also increased its support for industrial R&D through the Office of the Chief Scientist, an agency of the trade ministry. This invested about \$330m (£220m) in R&D last year and has sponsored an innovative programme of technological "incubators" attached to research institutes and established high-tech companies to create conditions in which recent immigrants, in particular, can develop their ideas.

Basic research is centred on seven universities, of which four, the Hebrew University in Jerusalem, the Weizmann Institute of Science in Rehovot near Tel Aviv, Technion – the Israel Institute of Technology in Haifa – and Tel Aviv University, are of worldwide renown. All have set up companies to commercialise their discoveries and develop technological transfer to industry while protecting their patent rights. Some, such as Technion and the Weizmann Institute, have also created science parks.

Technion, Israel's equivalent to the Massachussetts Institute of Technology, has the Technion Research and Development Foundation to strengthen the university's applied technological research activities and create closer ties with industry. R&D efforts are focused in 22 different centres covering research in areas such as aeronautics, space technology, electro-optics, microelectronics, advanced silicon chips, solid state electronics and robotics.

There is no barrier to collaborative research efforts between academia and industry in Israel. It is a small country – about the size of Belgium. The constant threat of war since its creation in 1948 led to the build-up of a large and innovative defence industry and intimate links between the military-industrial complex, academia and the government. People know each other and move easily in and out of the various sectors.

The interaction between industry and research institutions inside Israel has been augmented by close ties with the US scientific establishment. Israeli academics are generally not well paid. But they often make up for lack of earnings at home by spending several months a year on sabbatical at US universities or research centres. Exposure to American ways has not only boosted academic incomes. It has led to an interchange of ideas and helped spread the spirit of entrepreneurship in Israel.



Robert Harding

Haifa is home to the Israel Institute of Technology, where research and development is carried out in 22 centres

Bob Buckwald, president of CI Systems, was born in the US and has lived in Israel for 23 years. He taught physics at Technion until 1982 when he decided to set up his company. CI began as an R&D subcontractor, helping to make testing equipment for advanced weapons systems. Based in Migdal HaEmek, one of several industrial towns about half an hour from Haifa, CI has grown from a \$100,000 company in 1984 to a developer and manufacturer of electro-optical test and measuring systems, worth an estimated \$40m today.

Buckwald says Technion played an important part in getting his company launched when it had few resources. He used Technion facilities to develop CI's first electro-optical device, paying royalties in return. He has continued to maintain close ties: Technion scientists visit CI about every two weeks. The company is developing a spectral imaging system, the SpectraCube. Scientists at the Technion and the Weizmann Institute have helped in its development.

Orgenics, a diagnostic biotechnology company, is located in a nondescript business park in Yavne, south Israel, just 10 minutes' drive from the Weizmann Institute. It was founded in 1983 by Professor Max Herzberg, who emigrated with his family to Israel from France after the 1967 six-day war, and who then shuttled between Israel and the US teaching and researching before finally taking a position at Tel Aviv University in 1982 to teach molecular and cell biology.

Orgenics is a small research-oriented company with annual sales of \$6.5m. It has invested about \$14m on R&D since start up, is now profitable and exports 98 per cent of its output of diagnostic products.

The company exemplifies how Israel's new high-tech companies interact with the country's research establishment. It is currently carrying out a joint research programme with Tel Aviv University on monoclonal antibodies, used to control food quality. Herzberg is no longer an academic. But since 1991, he has chaired the Israeli National Steering Committee on Biotechnology which centralises the government's funding activities in the sector. He is also a member of the chief scientist's research committee.

Technion's academic excellence was one factor behind the decision of Intel, the big US semiconductor group, to start a development centre in Haifa in 1974 which now employs 550 people. Intel's Israeli scientists developed the numerical maths processors for the 386 chip and helped develop the Pentium processor.

Dov Frohman, general manager of Intel Israel, says it was attracted to Haifa in part because of the large pool of talented science graduates. A concentration of technologists in Jerusalem was one factor behind the company's decision to set up its production facilities there.

But he does not think Israel's academic institutions are particularly productive. According to Frohman, much of the collaboration between science and industry is based on personal contacts. Intel has invited scientists from Technion to visit its Haifa facilities. It currently has a small joint programme with the Hebrew University to develop neural networks in data processing.

With government backing, Intel staff have also set up an incubator: one of two dozen in the country which provide infrastructure for small high-tech projects to help them towards commercial viability.

Israel's incubators and recently established high-tech companies are producing "some really world class projects", says Ilana Gerard, president of Gerard Group International, a US-Israeli consultancy that puts Israeli high-tech companies in contact with US "Fortune 500" companies.

She shares none of Frohman's reservations. "The prediction may seem far fetched," she says. "But by the year 2005, Israel will be the world centre of high-tech R&D."

Next week: Sweden

Mix and match for PC users

Rachel Frampton looks at the growth of component software

Nearly 50 years after the tin can was invented someone came up with the idea of a can opener. By that timescale, it has taken the personal computer industry a comparatively short 10 years to work out how to unlock software applications so that they become easier to use and integrate.

Several leading US software companies are developing technology that will allow software applications such as word processors or graphics packages to be broken up into smaller software "components" that users can recombine in different ways, according to their needs.

Proponents of component software say this will make working on a PC easier and more efficient because users will no longer be saddled with large, complex applications with superfluous features.

Instead of having to switch between a word processor, a spreadsheet and a graphics program to create a report with text, charts and illustrations, the PC user will be able to combine features of all three programs to create a set of software tools specifically designed for the job.

However, the development of component software largely depends on establishing standards that define how software components work together. This could lead to yet another battle over software standards in the computer industry.

Already, there are two competing approaches to component software. The first, led by Microsoft, is called Object Linking and Embedding. OLE is a set of programming standards that enable features of one program to be incorporated in other programs. Microsoft's dominant role in the software industry has given OLE broad support from other software developers.

An alternative approach, called OpenDoc, is favoured by a consortium led by Apple Computer, IBM and WordPerfect. Other members include Novell, Sun Microsystems, Xerox and Taligent, the systems software joint venture funded by IBM, Apple and Hewlett-Packard.

The consortium claims its technology will be easier to use and require less computing horsepower. OpenDoc is also promising software that will work on a variety of computer systems, whereas Microsoft's OLE is currently geared to the company's Windows PC operating system.

While OLE is already available, however, the OpenDoc group will not complete the first versions of its software until the end of the year. A San Francisco-based organisation set up by the founding members of OpenDoc, called Component Integration Laboratories, will publish the specifications so that other software developers and corporate users will be able to design their own components.

The OpenDoc consortium claims wide support but few applications developers have so far publicly endorsed OpenDoc. WordPerfect, which Novell is acquiring, is the only member of the OpenDoc consortium that is primarily an applications vendor.

Moreover, the critical test of component software will be whether PC users embrace the concept.

Whether it will be cheaper, or more expensive, to buy sofware in the form of mix-and-match components has yet to be seen.

Truth sacrificed to radiant emboidery: Jack Lemmon and Walter Matthau in 'Grumpy Old Men'

Cinema/Nigel Andrews

Culture of the absurd

What are the constituents of North American popular culture? Let me start with my postbag. I returned from Cannes to find two outraged letters from trans-oceanic readers, one calling me anti-Canadian, the other anti-American.

In the first case I had quoted Leslie Nielsen as saying he was brought up near the Arctic, although his birthplace is, says the correspondent, "further from the Arctic Circle than is London." I and fellow journalists are accused of conspiring to paint Canada as "one boring, amorphous lump somewhere in the frozen north."

In the second case, a Washington DC reader resents my claim that many US citizens "have not heard of Arthur Miller, Einstein or the Pope."

I am, as you know, a registered acolyte of western Atlantic culture high and low. But part of that culture's appeal is the thin line between inert honesty and productive hyperbole. Nielsen was the one who played fast and loose with the Arctic's location. And while I have not personally polled America about Arthur Miller and Co, recently large numbers of America's youth *did* fail to answer the question "Who was Adolf Hitler?"

Let us come to *Grumpy Old Men* and *The Adventures Of Huck Finn*. The first is a Walter Matthau/Jack Lemmon comedy shot in what looks like the Arctic Circle – huts on frozen rivers, fishing through ice – but is actually no further north than Minnesota. And *Huck Finn* is about an American boy's dream of living a life of eternal truancy. Truancy from home, parents, education: in short, from what we shall hereafter call EEBF (Everyone Else's Boring Facts).

If Finn lived today, he would be a movie addict, where respectable truth is ritually sacrificed to radiant embroidery. The same spirit fills *Grumpy Old Men* as fills LN's assertion that he grew up cheek-by-jowl with the Eskimoes. We are asked to believe that Matthau and Lemmon both fall for new neighbour Ann-Margret and that she, an auburn-haired knockout even at 50, would be ardently torn between the two codgers.

Grumpy Old Men does not so much "stretch" plausibility as strain, split and finally lacerate it. But I found the film fun in direct ratio to its increases in absurdity. Matthau as a Don Juan? He looks more like a basset-hound, trapped in a fridge. Lemmon as a sweet monastic widower? He looks more like Mr Executive Stress sent for a rest-cure to the icy north.

But this is what movies are about. Hire that star; push him up that mountain towards Peak Preposterous; then have him tell his interviewers he was born in Katmandu, Spitsbergen or El Dorado.

Grumpy Old Men is no masterpiece but it coaxed a cool $70m from Americans who know a class comic double act when they see one. *The Adventures Of Huckleberry Finn* is a masterpiece, on page, but has an odd habit of defeating people on screen. Twain's Mississippi was of the mind, just like Nielsen's remembered Regina, and his hymn to childhood fantasy, otherwise definable as the flight from EEBF, resists photographic re-enactment.

Elijah Wood is a tousled, puckish Huck with eyes like UFOs. And Jason Robards as the King of Bilgewater, Twain's master fraudster, won gusts of laughter from the press show audience with his DIY cockney accent and A-Z knowledge of English landmarks. "Where's Buckingham Palace?" Robards: "Buckingham." But the book's real magic is the river, and that is skimped; even though cameraman Janusz Kaminski, *Schindler's List* Oscar-winner, might have worked wonders if allowed out for long enough.

*

Hostile Hostages is unhappier proof of our assertion that many Americans cannot have heard of the playwright, physicist and papal eminence cited above. If they had, this "comedy" might have a less casual attitude towards dramatic structure, space-time improbabilities and marital break-up.

GRUMPY OLD MEN (12)
Donald Petrie

THE ADVENTURES OF HUCK FINN (PG)
Stephen Sommers

HOSTILE HOSTAGES (15)
Ted Demme

A BUSINESS AFFAIR (15)
Charlotte Brandstrom

Judy Davis and Kevin Spacey play the bickering couple whose car and, later, home are hi-jacked by a fleeing burglar. As the footpad who referees their rows – the film's US title was *The Ref* – stand-up comic Dennis Leary looks as if he wished he had never sat down in his Disney actor's chair. Feeble dialogue destabilises an already strained plot conceit, and only dear Glynis Johns as Mum-in-law – how they wheel out the English actors for villain roles! – floats above the hi-concept banality.

A Business Affair is set in London, but might be set in the Arctic for all resemblances to life in this city. The film is funny, but how much is it meant to be? Jonathan Pryce is the egomaniacal English writer married to model and would-be novelist Carole Bouquet (French). And Christopher Walken is the snaky, Italian-extracted American publisher who steals La Bouquet plus her works-in-progress.

Director Charlotte Brandstrom approaches William Stadiem's script, drawn from two novels by Barbara Skelton, like a headmistress approaching a difficult but talented pupil. Her no-nonsense style irons the irony out of lines that we assume to be satirical but cannot be sure: "I can't negotiate with Amis in a condition of frustration. I'm Sicilian" (Walken to sex-bored Bouquet).

I hoped Martin Amis would walk in, pick up his dropped name and hurl it among the cameras, causing the film to jump about and get some style. With Walken and Pryce both in mint form – the first a flaky-voiced dandy with dancing eyes and teeth, the second tall, slim and deadly like an explosive pencil – the histrionic components are here. But the movie's own rhythms are relentlessly four/four, and Bouquet has yet to acquire enough convincing English phrasing to wrap around even simple lines.

"Why not call set a nasht?" the actress asks at one point, causing us critics to nod in agreement. But no rest for cultural monitors: it is half-term and the world is full of children's films. Besides Twain we have *Rookie Of The Year* and *Josh And S.A.M. Rookie* (PG) is about a small boy (Thomas Ian Nicholas) who develops a miraculous pitching arm after an accident and plays baseball for the Chicago cubs. This made much money in America and we see why. Played for frantic charm, it *has* a frantic charm. Actor Daniel Stern debuts as director.

Josh And S.A.M. (12, director Billy Weber) is the lesser tale of a boy who persuades his brother Sam that he (Sam) is a Strategically Altered Mutant; hence name. As a result they travel all over America escaping from parents, schools and EEBF. In short, they are just like Huck Finn, Les Nielsen and the rest of us who love that wonderful world called imagination and who will not be put off by Cantankerous of Canada or Apoplectic of America.

Theatre/Alastair Macaulay

An audacious 'Coriolanus'

Boy. The real Caius Martius Coriolanus was probably thirty-something when he died, and Shakespeare's hero has been played by many actors older than that. Before killing him, however, his enemy Aufidius calls him "boy", and it is this brilliant taunt that drives Coriolanus into his final, fatal fury. And this word is the clue to the RSC's splendid audacity in casting Toby Stephens – 24 years old, forsooth – as its new Coriolanus.

He charges through the role in a youthful blaze. His voice, a tenor, has steel and clarion attack. Not only proud (the word forever applied to him by other characters), but thrillingly hot-tempered and impetuous too, this Coriolanus has never quite grown up. Assured of his own natural superiority, he lives in action; he has no reflectiveness until it is way, way too late. Even when his mother and friends persuade him to return in mildness to the people, his temper bursts out again, and he shouts "Well, MILDLY BE IT THEN." This is, to us, marvellously funny – but he himself lacks any irony.

Something in him dies on being exiled from Rome. When he comes to Antium and is embraced by Aufidius as a friend, he is stiff, lifeless, as if already in rigor. His mother cracks this dead facade, and he cries out in massive misery at how she has undone him. He knows she has sealed his death-warrant, and in his final scene he seems to invite his death. He dons again the same insolent haughtiness that had brought the Romans close to killing him; this time, with his new Volscian colleagues, nothing will save him.

The director, David Thacker, has had the idea of setting the play in post-1789 revolutionary France, to lend new force to the republican talk that surrounds Coriolanus and his fellow-aristocrats. Banners around the theatre bear the words "Liberty, Equality, Fraternity". A key image is the stream of corn that pours from above into a locker beneath the stage, and which the hero bars the plebs from taking.

But Fran Thomson's designs, handsome and vivid though they be, are so historically specific that they raise problems. Stephens's hair is brushed forward like Napoleon's – i.e. not an aristo but a self-made man who turns republicanism back into conservatism – and the noblewomen are dressed with Napoleonic neoclassicism. He is uniformed in black and gold like a Géricault officer: i.e. post-Napoleonic. And the backdrop is Delacroix's "Liberty Leading the People": which, surely, is all about the barricades of 1830. The more you know about post-1789 France, the more distracting you will find this production's notion(s) of period.

This notwithstanding, the production has great vigour and narrative energy. Thacker makes the most of the love-hate nexus between Coriolanus and Aufidius (Barry Lynch, darkly smouldering, as slight and lean as Stephens). At the end, the Volscians leave Aufidius alone to embrace again his now dead enemy. As the hero's mother Volumnia, Caroline Blakiston begins as a hearty and youngish society lady, with horridly Oedipal outbursts against her son's wife Virgilia. Her finest hour is in the helpless fury she unleashes on the tribunes who have exiled her boy. She is, however, too subdued in the great scene when she persuades him to save Rome. And her diction has become muzzy.

Monica Dolan makes the ungrateful role of Virgilia into a very interesting study of passivity. And Philip Voss makes old Menenius into the most rounded character in the play: hero-worshipping young Caius Martius, contemptuous of the tribunes, fully possessed of the moderation and diplomacy his boyish hero so eminently lacks. This difficult play can have a vaster scale, the hero a mightier intellect, than in this production. But it is completely alive, and gathers powerfully in excitement.

In repertory at the Swan Theatre, Stratford-upon-Avon

Alastair Muir

Toby Stephens in the title role

Keeping up with Arcadia

A Nobel prize-winner said on the radio on Monday that he could keep up with all the talk about science and Romanticism in Tom Stoppard's *Arcadia*. I rather pity him. Trying to keep up with *Arcadia* is, for us lesser mortals, impossible, exuberant, and, finally, strangely touching. The play was exciting when new last year at the National Theatre; but returning to it, now that it comes to the West End, is even better – just that bit less bewildering but no less tantalising. For our failure to understand everything is part of the beauty of the play.

Arcadia is all about knowledge – about the effort to know things, about the mutations of known things and our ways of knowing them, and about the ultimate unknowability of things. It suspends, shimmering in the air, both knowledge as a human epistemological endeavour and knowledge as an ultimate ontological fact. Its wit puts one in mind of Congreve and Wilde, but finally it comes closer to the forsworn, death-clouded scholars of *Love's Labour's Lost*. It says "Lord! what fools these scholars be". and then, so tenderly, darts on to knowledge of life, death, and sex.

Arcadia commutes between two eras: 1809-1812 and the present day. Lord Byron is forever offstage, much spoken of by characters in both periods. Romantic sincerity and Romantic artifice are all-important; and so is nature – nature as spoilt and reinvented and investigated by successive humans; and so is time.

The play cast its spell with its marvellous original cast last year. This time I admire Trevor Nunn's direction even more because he has kept the play virtually as enchanting with a new and generally inferior cast. I miss some of the first cast dreadfully – we are lucky that Radio 3 has twice broadcast their performance – but I remain captivated. The best news is that the two most touching and complex roles, Thomasina and her young tutor Septimus – are still very well played by talented young actors. Lucy Whybrow has Thomasina's febrile intensity and charming precocity; and Edward Atterton has the smouldering intensity of the young Romantic's mind and emotion.

The worst news is that Thomasina's mother and the revisionist scholar Hannah are acted terribly – busily, over-emphatically, weakly – by Julie Legrand and Joanne Pearce. Roger Allam is a more languid, classy lecturer than was Bill Nighy; Charles Simpson a more affected young aristo than Sam West.

Yet any flaws are minor, for Nunn has elicited pacing so lucid, and pointing so natural, that this astonishingly complex play remains rich in suspense, laughter, and the excitement of thought. Jeremy Sams's music, brilliantly crossing historical periods, is perfect and moving; and so is the beautiful Georgian round room of Mark Thompson's set. In this post-modern work, every rococo embellishment makes its telling contribution.

Theatre Royal, Haymarket

Pop/Antony Thorncroft

Laurie Anderson and David Byrne

Two niche brands from New York, both with rather dodgy sell-by dates, have been marketing themselves hard in London this week. Laurie Anderson, big in 1981 but as minimal as her music since, has a new book. David Byrne, driving force behind Talking Heads, the po-faced students' band of the 1980s, was plugging David Byrne, the album.

Anderson got caught in the performance art web and has never escaped. She still sits solemnly at her electronic keyboard; she still has mastery over the same note; she still chants, in her hypnotic drawl, well-rounded nonsense. Her 90 minute monologue at Sadler's Wells was "what I did on my holidays". "In 1987 I went to Mexico to see my brother" and then on to an anecdote about primitive Mayans mistaking her contact lenses for jewels that she hid in her body. Most of her tales are less exciting: many are downright banal; some test credibility, especially the Arctic family who eat possum smeared with maple syrup while their children disappear down mining shafts.

Anderson brazenly reads from her book, entitled *Stories from the Nerve Bible*, her fanciful name for the body, occasionally switching from her natural voice to an electronic mike which catapults her from bass profondo to squeaky soprano. Sometimes she sings. In the hushed, reverential, atmosphere it is all but impossible not to nod off – but, oh so, beautifully.

You expect Laurie Anderson to be out-to-lunch and you enjoy the test of wills between her kookiness and the credulity of the audience. David Byrne had a harder task at the Palladium, introducing introspective new songs to unregenerate Talking Heads fans. I felt sorry for the chap who stood up ready to boogie: he had to wait for the fourth encore before Byrne had mustered enough enthusiasm from the audience.

Byrne, now with long hair, sings bleak songs with even bleaker settings, performed by a trio of guitars and percussion. Actually they grow on you, but at first sounding are rather relentless. Of course the lyrics are startling: "I met my love at a funeral" begins "Crash"; "Running naked down the state highway" opens the more hopeful, indeed evangelistic, "Buck naked".

But the more you get down to the words the more you feel Byrne is going for easy fixes. The lyrics sound important but fall apart. The salvation is in the rhythms, the Latin tinge to "Sad Song", for example, which, with "Lilies of the Valley", is the song most likely to ingratiate itself quickly with Byrne's now rather mature cult following.

Perhaps in a smoky club it might have clicked, but at this palace of variety Byrne came across as a rather serious family man in his early forties half heartedly taking on world issues to fulfil a contract. There is actually little Byrne offers in performance that adds to his CD, except perhaps a tendency to sing flat. The great thing about Talking Heads was that the name said it all.

INTERNATIONAL ARTS GUIDE

ATHENS

Megaron Sat, Sun, Mon, Tues: Jacques Lassalle's Avignon Festival production of Euripides' Andromache. June 8-12: Orchestre National du Capitole de Toulouse (01-728 2333/01-722 5511)

BOLOGNA

Teatro Communale Final performances of Offenbach's Barbe-bleue are tonight and tomorrow, with a cast headed by Ezio Di Cesare and Adelina Scarabelli. The season ends on June 3 and 4 with symphonic concerts conducted by Eliahu Inbal (051-529999)

BERGAMO

The annual festival at Bergamo and Brescia runs till June 11 with an emphasis on the piano music of Bach, Mendelssohn, Schumann and Reger. Artists featured over the coming week include Alicia de Larrocha, Maurizio Zanini and the Prague Chamber Orchestra and Chorus (Bergamo: 035-249631. Brescia: 030-375 7974)

FLORENCE

MAGGIO MUSICALE
Zubin Mehta conducts Verdi's Requiem tonight and on Sun at the Teatro Communale, with Luciano Pavarotti, Roberto Scandiuzzi, Michele Crider and Dolora Zajik. Tomorrow's concert is given by the Oslo Philharmonic Orchestra conducted by Mariss Jansons. Sat (Teatro della Pergola): Radu Lupu is piano soloist with Academy of St Martin in the Fields. Sat, next Tues and Fri (Teatro Communale): Mehta conducts Luc Bondy's Salzburg production of Salome, with Catherine Malfitano and Monte Pederson. Next Wed and Thurs: Semyon Bychkov conducts the Maggio Orchestra in works by Beethoven and Stravinsky, with piano soloist Maria Tipo. The festival runs till July 1 (055-277 9236)

GENOA

Teatro Carlo Felice Tonight, Sun afternoon, next Fri: Bruno Bartoletti conducts Pierluigi Samaritani's new production of Lucia di Lammermoor, with cast headed by Mariella Devia (010-589329)

LONDON

THEATRE
● King Lear: Robert Stephens plays Lear in Adrian Noble's RSC production, which was enthusiastically received when it opened in Stratford last year. The cast also includes Simon Russell Beale as Edgar, David Bradley as Gloucester and Janet Dale as Goneril. Previews start tonight, Press night on Tues (Barbican 071-638 8891)
● A Midsummer Night's Dream: the summer season in Regent's Park opens with a new production of Shakespeare's supernatural tale, directed by Deborah Paige. Previews from tomorrow, opens on Tues (Open Air 071-486 2431)
● Pericles: the National Theatre's new production of Shakespeare's magical epic is directed by Phyllida Lloyd, with Douglas Hodge in the title role. In repertory at the Olivier with Alan Bennett's stage adaptation of Kenneth Grahame's novel The Wind in the Willows (National 071-928 2252)
● Rutherford & Son: the National revives Githa Sowerby's 1912 powerful portrait of suffocating Victorian values. Bob Peck plays John Rutherford, a man obsessed with the running of his factory at the expense of all compassion. Katie Mitchell directs in the Cottesloe (National 071-928 2252)
● Dead Funny: Terry Johnson's new comedy of sexual impotence has tension as well as bite. With Zoe Wanamaker and David Haig (Vaudeville 071-836 9987)
● A Month in the Country: Helen Mirren is in dazzling form as the bored Russian housewife of Turgenev's languid masterpiece (Albery 071-867 1115)
● Travesties: Antony Sher gives a powerful performance in Tom Stoppard's teasing comedy (Savoy 071-836 8888)
● An Inspector Calls: Stephen Daldry's exhilarating revamp of J.B. Priestley's psychological thriller (Aldwych 071-836 6404)
● Crazy for You: after more than a year in the West End, Gershwin's musical comedy still bursts with energy, humour and style (Prince Edward 071-867 1045)
● For ticket information about West End shows, phone Theatreline from anywhere in UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962. Most London theatres are closed on Sunday.

MUSIC/DANCE
Covent Garden After a long gap, the Royal Ballet returns on Mon with the first of seven performances of Minkus' Don Quixote starring Sylvie Guillem. The Royal Opera has a final performance of Giordano's Fedora tomorrow with Freni and Carreras, plus Rossini's Mosè with Ruggero Raimondi (till June 11). The next new production is Aida, opening June 16 (071-240 1066)
Coliseum ENO repertory for the next week consists of Tim Albery's production of Peter Grimes with Philip Langridge in the title role, conducted by David Atherton, and Così fan tutte with a cast headed by Vivian Tierney. The next new production is Jenufa, opening June 8 (071-836 3161)
Queen Elizabeth Hall Anne Teresa De Keersmaeker, the Belgian experimental choreographer, brings her Rosas Dance Company to the South Bank tomorrow and Sat with a programme set to music by Bach (071-928 8800)
Barbican Mstislav Rostropovich conducts LSO in tonight's all-Shostakovich programme, with violin soloist Maxim Vengerov. Richard Stamp conducts Academy of London next Wed in Viennese operetta extracts, with soloists from the Vienna Volksoper (071-638 8891)

MADRID

Teatro Lirico La Zarzuela Tonight, Sat, Sun, next Tues, Thurs and Sun: Odón Alonso conducts Emilio Sagi's new production of Emilio Arrieta's 1871 opera Marina, with cast headed by Alfredo Kraus and Ana Maria Gonzalez (01-429 8225)
Auditorio Nacional de Musica Tonight: flute and guitar recital by Montserrat Gascon and Xavier Coll. Tomorrow, Sat, Sun: Aldo Ceccato conducts Spanish National Orchestra in works by Tchaikovsky and Stravinsky (01-337 0100)

MILAN

Teatro alla Scala A new production of Elektra, conducted by Giuseppe Sinopoli and staged by Luca Ronconi, opens on Sat with a cast headed by Janis Martin (repeated May 31, June 2, 4, 7, 8, 10). Brigitte Fassbaender gives a song recital on Sun, and there are nine performances of Rigoletto between June 3 and 30 (02-7200 3744)
Teatro Nuovo Roland Petit's ballet Tout Satie opens on Sat and runs daily except Sun till next Fri (02-7200 3744)

NAPLES

Teatro San Carlo Manon Lescaut opens on Sat for five performances with a cast headed by Miriam Gauci, Nicola Martinucci and Antony Michaels-Moore (081-797 2412)

PRAGUE

PRAGUE SPRING FESTIVAL
The final week of the festival includes concerts by the BBC Philharmonic, Prague Symphony, Czech Philharmonic and Suk Chamber Orchestras, plus Steve Reich and Musicians, Musica Bohemica, John Williams and London Sinfonietta Voices. Estates Theatre has performances of Don Giovanni tomorrow and Sat, and the National Theatre has Gounod's Roméo et Juliette on Tues. Charles Dutoit conducts Orchestre National de France in the closing concerts next Wed and Thurs (02-311 8780)

ROME

Teatro Valle Tomorrow: Iona Brown directs Academy of St Martin in the Fields in works by Wagner, Britten and Mozart. Sat: Mariss Jansons conducts Oslo Philharmonic Orchestra in works by Sibelius and Tchaikovsky. Sun, Mon, Tues: Daniele Gatti conducts Orchestra dell'Accademia di Santa Cecilia in works by Sciarrino, Berg and Beethoven, with violin soloist Mark Kaplan. June 3: Edita Gruberova (06-678 0742/06-6880 3794)

TURIN

Teatro Regio Tomorrow and Sun (both at 3 pm): L'elisir d'amore with cast headed by Maria Grazia Nocentini, Roberto Aronica and Leo Nucci. June 6: Edita Gruberova song recital (011-881 5214)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

European Cable and Satellite Business TV

(Central European Time)

MONDAY TO FRIDAY
NBC/Super Channel: FT Business Today 1330; FT Business Tonight 1730, 2230

MONDAY
NBC/Super Channel: FT Reports 1230.

TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345

WEDNESDAY
NBC/Super Channel: FT Reports 1230

FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030

SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Modern lessons from an old master

BOOK REVIEW

It is instructive to look again at the edition of Life magazine, dated November 25 1968. On the cover, next to the caption "The Nixon era begins", is a smiling president-elect, but the text and pictures inside now come over with a sense of retrospective foreboding.

There is a three-quarter-page shot of election night in New York conspicuous for its lack of warmth and enthusiasm. Richard Milhous Nixon and his family are celebrating, but the crowd is curiously static, no punched fists in the air, no one obviously shouting approval. Reflecting on an awful year, with two assassinations, race riots and violent anti-war demonstrations at the Democratic convention in Chicago, Life did not hold out much hope that the new president could change things for the better. His campaign had been "serviceable if not inspiring", his solutions "managerial and unspecific".

When he died last month, American reactions to their 37th president went through two phases in quick order. The first, dictated by the decent instinct not to speak ill of the dead and spurred on by the generous eulogies of President Bill Clinton and others, almost amounted to a kind of revisionism. Obituaries and columns delved deeply enough into the reasons for his downfall – Watergate – but they were offset by compliments for an endurance in disgrace that to many was tantamount to rehabilitation, and for the good things he had done as president. A fixture in American politics since 1946, there seemed almost a sense of national loss that he was no longer around as the focus of a new admiration or the old loathing.

The second phase revised this revisionism. Garry Trudeau's "Doonesbury" cartoon strip savagely lampooned those who had tried to rewrite Watergate. Others wrote with passion about the betrayal of a nation's trust by a man who became the first president to resign in order to avoid impeachment.

WATERGATE – The Corruption and Fall of Richard Nixon
By Fred Emery
Jonathan Cape, £20, 542 pages

Interestingly, for one who had covered Nixon's first term, which ended with his landslide victory in 1972 but before Judge John Sirica opened cracks in the Watergate defences, and who had spent long nights in London editing Watergate copy from our Washington bureau, I found much of both phases unreadable. I had my opinions of Nixon, I said to myself. Why read those of others with axes to grind?

Fred Emery has provided a necessary "reality check" and it could not have come from a better non-American source. He was The Times's Washington bureau chief from 1970-77. Unlike the late, great Peter Jenkins who, when resident Guardian correspondent, knew in his bones that Nixon was rotten, Emery was a reporter's reporter, in the best American sense of the term, writing what he knew and could find out without embroidery.

He survived – and thrived – even though his then editor, William Rees-Mogg, once flew to Washington to tell US journalists assembled at the National Press Club to stop crucifying their president because Watergate simply was not important enough. It may be doubted that today's press barons would be so charitable to those not toeing the proprietor's line.

Emery's book, published in conjunction with the BBC documentary series already begun in the UK and due to air in the US to coincide with the 20th anniversary of Nixon's resignation in August, is a smoothly written, meticulously researched narrative account of what began as "a third-rate burglary" and ended as a cover-up of monumental proportions at the highest levels of government.

Of course, as he makes "perfectly clear", to use Nixon's favourite phrase, it did not all begin with the break-in of Democratic party offices on the Memorial Day weekend of 1972.

The seeds had been sown a good two years earlier, as an enraged Nixon – and an equally furious Henry Kissinger – tried to find out who had been leaking what over the bombing incursions in Cambodia and the publication of the Pentagon Papers, detailing US involvement in Vietnam.

The cast of characters that was to become notorious – Haldemann, Ehrlichman, Mitchell, Liddy, Hunt, Dean, Huston, Young, Magruder and many more – was commissioned (the "plumbers") and in place for "dirty tricks". What they did still has the power to shock, but nothing like as much as the cover-up itself. The endemic characteristic of good US scandals is that the act itself is never as bad as subsequent attempts to frustrate and conceal, a lesson still not learnt 20 years on.

Indeed, if there is one overriding lesson from this book relevant to contemporary revisionism, it is that Nixon was not betrayed by overzealous minions taking the vague wishes of his darker side to extremes. The president might have overruled, in July 1971, a madcap scheme to firebomb the Brookings Institution, a Democratic redoubt, but for such a plan to have been drawn up and presented to the Oval Office on the reasonable expectation of approval speaks volumes for the degree of control exercised from the very top. If that were true pre-Watergate, it just got worse as events spun out of the control of even the mastermind.

None of this was evident to, or even suspected by, Life in 1968 beyond its graphic pictures and words. But Hugh Sidey wrote in that edition that the new president-elect could do far worse than visit Williamsburg, Virginia, where independence from Britain was planned, to soak up an atmosphere he said was still redolent of Washington, Jefferson, Monroe and Madison. We may only speculate whether history would have been different had Richard Nixon taken the advice.

Jurek Martin

ECONOMIC VIEWPOINT

Three big cheers for no 'beef'

By Samuel Brittan

A former Democrat aspirant to the White House (Gary Hart) was plagued by cries of "Where's the beef?" What the complaint meant, when translated out of journalese, was the relative absence of plans to raise federal spending or intervene in the conduct of business and industry.

The British government's white paper on competitiveness, now appearing after a long gestation period, has been predictably greeted with similar cries. The kinds of "beef" that exponents of competitiveness usually want are nearly all pernicious: tax favours for selected sectors, disguised export subsidies, or threats to overseas countries such as President Bill Clinton's "targets" for import penetration into Japan.

The absence of such items is a good feature of the white paper. Except in the education and training field few new policies are announced.

For the rest the white paper restates existing policies. Some new ideas are to be "studied" or "investigated"; and in their search for hard announcements officials have been forced to drop in sentences such as: "Lord Walker is to be personal adviser to the president of the Board of Trade on overseas investment." The document is reminiscent of many of the products of pre-Thatcher Tory governments in its mixture of exhortation, statistics and summaries of mostly minor government moves.

The postwar style comes out clearly on the cover, which illustrates a mélange of industrial processes – as if to reassure ministers who might have been alarmed by the patient explanations of the official writers (paragraphs 1.27 to 1.29) that all sectors of the economy are (equally) important and that "many of today's high-tech industries include ones in the service sector".

The white paper is torn between the desire to show that Britain's performance has been relatively good over the past 15 years of Conservative government and the need to show that it has not been good enough, in order to sustain exhortation about competitiveness. On the whole the first requirement tends to prevail.

The document has many good things, in spite of its title. It can be regarded as a sort of economic report: an embryonic version of a document such as the US Council of Economic Advisers' Report, which reflects the outlook of the incumbent administration, but is reasoned and analytical, with a statistical framework that changes little from one president to the next.

The white paper should be improved, given a new title and made into an annual event until it achieves such status. But it has a long way to go. It is a difficult document in which to find one's way. There is no index, list of figures or even detailed table of contents. Maddeningly, the statistics from which the charts are drawn are omitted so one either has to guess or fax the Department of Trade and Industry if one wants more than an impressionistic glance.

The white paper authors try hard to come out with a concept of competitiveness by which they can square their economic conscience. In the end they settle for the OECD definition: "The degree to which [a country] can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term."

The OECD definition might please politicians by giving some credence to the notion of all countries being more competitive, but it is opaque enough to put off others from fuller analysis. Deconstructed, the definition means some combination of reasonable productivity growth and an appropriately valued real exchange rate. If people want to use words in this funny way, why should we seek to spoil their game? But alas the issue does matter. The white paper's official authors desperately try to undo damage by inserting in the body of the document that "there are prizes in world markets for all".

But what competitiveness means to most people is illustrated by the white paper's sub-heading: *Helping Business to Win*. Overall performance can only be translated into competitiveness if countries are ranked in an imaginary league table rather than being content to improve on their own. The big defect in talking about countries being more or less competitive is that it makes world trade a form of warfare in which one country can only gain at the expense of another.

The big defect in talk about nations being competitive is that it makes world trade a form of warfare

Thus unfortunately the lack of "beef" in this white paper is all too likely to mean pressure on this or another government to produce a much more interventionist document which will really attempt to boost Britain's trade at the expense of other countries. For being more competitive means, in ordinary language, being more competitive against others.

The positive conclusion from international comparisons is that, judged by labour costs, the UK is the most competitive of the European Union countries except Italy, and is also more competitive than Japan. Only the US is more competitive. Even in 1990 when the UK entered the exchange rate mechanism, unit labour costs in manufacturing were lower than in Germany and France.

How come if America and Britain are so competitive that they have such notorious current payments deficits? One could say that it is non-price competitiveness, such as delivery, design and so on. But that would be scraping the barrel. The payments deficits could be the mirror image of budget deficits, but that is not completely convincing either. An alternative explanation is that these deficits reflect international differences in private savings relative to investment opportunities, or inflows of capital funds across the exchanges. In the latter case, as some people will be sorry to hear, there may be no problem at all.

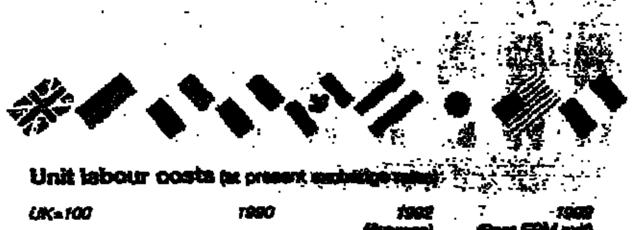
There is such a thing as being too competitive. Let us suppose that by some magic British labour costs could be halved overnight relative to those of other countries. Unless there were some change in underlying international capital flows the improvement could not last. British producers would for a time be swamped with extra demand, which would be fine for a while. Eventually, however, a combination of higher domestic costs and an appreciation of sterling would choke off the extra demand. The result would be a return to the original level of competitiveness and balance of payments, with a great deal of disturbance en route.

Fifty years ago yesterday, a much more important white paper was issued, the wartime coalition government 1944 paper on employment policy. The promise of that earlier document was to provide conditions for high employment. Alas, that hope has been dashed from our lips.

If unemployment were a question of just a few countries with overvalued real exchange rates, then it might make sense to see the problem in terms of competitiveness. But when high unemployment is a common problem among nearly all developed countries, it makes no sense at all to see it in these relative terms. Nor does it make sense to call for greater competitiveness against developing or former communist countries which are hard put to pay their way even with their comparatively low wages.

Some ministers in the Thatcher government of the 1980s were brave enough to talk of workers being priced out of jobs. Present-day ministers prefer to translate this unpalatable concept into the superficially softer one of lack of international competitiveness. The effect is, however, to project the problem on to the outside world – as if somehow inferior performance by China or the Czech Republic would make western European unemployment go away.

UK's low cost advantage



Unit labour costs (at present exchange rates)

UK=100	1990	1992 ([illegible])	1993 (Post ERM exit)
Belgium	97.8	NA	NA
Canada	98.8	94.1	89.7
France	101.8	102.5	114.0
Germany	107.9	115.7	128.5
Greece	115.0	NA	NA
Ireland	NA	NA	NA
Italy	92.5	93.1	93.2
Japan	81.8	99.3	113.0
Netherlands	93.1	98.7	112.5
Portugal	236.6	NA	NA
Spain	124.3	NA	NA
UK	100.0	100.0	100.0
US	79.0	75.4	63.5

Source: National Institute for Economic and Social Research

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Investment authority role still unclear

From Mr Michael Bryant.

Sir, The interim report of the Treasury and Civil Service Committee identifies, but does not provide an answer to, a fundamental problem in retail investment regulation.

The committee obviously believes that, in its present form and structure, the Personal Investment Authority will not be effective; major and fundamental changes are needed. But, before then, and as a matter of urgency, government should indicate if it is prepared to legislate to withdraw the ability for any retail investment business to seek authorisation from the Securities and Investments Board directly. If such legislation is promised, the PIA can be developed, as the committee obviously believes is necessary, as a single retail regulator under the self-regulatory organisation regime.

If government is not prepared to legislate, regulatory arbitrage will frustrate the accepted need for a single retail regulator; there will always be the choice between SIB or PIA.

Consequently, if no legislation is likely to be forthcoming, the only answer is for the PIA to become a designated agency, equal to and alongside the SIB. In these circumstances, there would be no opportunity for regulatory arbitrage. Arguments about composition of governance would cease, and consumers would know exactly how their adviser was regulated.

Without a clear indication from government of legislation to remove SIB's authorisation powers, the PIA as a self-regulatory organisation has no real future as the single, effective retail regulator.

Michael Bryant,
Rathbone Brothers,
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London SW1W 0EX

Good team overlooked

From Mr Mike Dodds.

Sir, How did Laura Thompson manage to overlook Newcastle United in her review of the English season (Sport: "Blessed break for the game", May 23)? They are surely the very thing she was looking for – a team that plays with the skill, attitude and flair of Manchester United but which, more often than not, is composed solely of English outfield players.

Newcastle United may not quite match up to Manchester United yet in consistency of performance throughout the season, but there is every indication they they will do so very soon.

Mike Dodds,
35, Little Bornes,
Dulwich, London SE21 8SD

Frustration of auditors over liability

From Mr G Acher.

Sir, I am delighted your editorial, "The liabilities of auditors" (May 23), recognises there is a serious issue to address: "... In principle, the argument for reform seems sound. It must be unreasonable for auditors to be held wholly responsible for corporate disasters when they have not been the direct cause of the problems."

You recognise that reform would require radical changes in the law "overturning the principle of joint and several liability", and that there is no likelihood of this reform being introduced soon. That is the dilemma which has resulted in what you term "a flawed alternative".

Auditors are well aware that the change proposed to Section 310 of the Companies Act 1985 is the second-best solution. However, it is surely better to do something to improve an unfair position, even the second-best option, than to do nothing at all? Readers may remember that five years ago the Liklerman report suggested, among other steps, the change to Section 310 which the big firms now propose, yet nothing has been done since then.

You also commented on the reluctance of firms when sued for audit negligence to go to court, particularly when the courts have "in practice demonstrated considerable sympathy for the profession, tightly restricting its duty of care..." Decisions not to go to court are based on a case by case commercial assessment of the likely cost, etc – legal costs have represented more than half the total costs of settling claims against major firms. Cases like Caparo and Galoo have been heavily criticised in many quarters and those defending suits would be unwise to rely on the courts taking a similar line in other circumstances.

The blunt fact for the auditing profession is that we are exposed at present to the very real risk of massive claims and of bearing a disproportionate share of responsibility. You have pointed out this situation is unreasonable.

I hope you and your readers will also be sympathetic to our frustration in having to put forward a second-best solution to a problem.

G Acher,
head of audit and accounting,
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Positive achievements of Dr Banda should also be recognised

From Sir Henry Phillips.

Sir, It is all too easy for Michael Holman and Nick Young to brand Dr Banda of Malawi as an oppressive dictator accountable only to himself ("Malawi slips at last from iron grip of Banda," May 21). Not much is said about his positive achievements.

I was his minister of finance during Nyasaland's transition to independence in 1964 and when at that point I left the country it is not unfair to say that, due to a paucity of resources, it was an impoverished colonial backwater. Dr Banda's first task was to mobilise funds from elsewhere in the western world.

This enabled him to finance a formidable programme of social and economic development. The importance he attaches to education manifested itself in the establishment of primary schools for all, secondary schools in every district and a university of which he is chancellor. The need to open up the country resulted in major road construction, a railway extension, more frequent air services and vastly improved telecommunications. And he sought to encourage industrial investment by a liberal regime for private enterprise.

Even more important, his personal intervention in agricultural production and marketing ensured self-sufficiency in their basic foodstuff. Very occasionally, the failure of the rains might have made it necessary to import maize, but this danger did not divert him from admitting a million hungry refugees from the civil war in neighbouring Mozambique, a signal act of humanity.

Since I left Malawi and, until recently, I have been a regular visitor as a director of the National Bank of Malawi, and I have travelled the length and breadth of the country. Compared with my colonial memories I can say without hesitation that the quality of life of its peoples has vastly improved as a result of Dr Banda's policies. Adults and children alike are by African standards well clad, well nourished, industrious and happy.

We may detest autocratic rule, but strict discipline is often necessary to overcome backwardness. In Malawi, many individuals have suffered in the process; and the emotional reporting of such incidents has unsurprisingly engendered a worldwide sense of outrage which tends to overshadow any resultant common good.

Dr Banda, even at his great age and in supreme command, has bowed to world opinion (while reminding us that not so long ago we imprisoned him without trial!) He set in train reforms necessary to safeguard human rights and to introduce political pluralism; and he has graciously acknowledged defeat by a successor to whom he has pledged full support.

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FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
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Thursday May 26 1994

More knocks for the PIA

Few disinterested observers would argue with the Treasury select committee's assertion that the British retail financial services industry has for too long been characterised by incompetence and mis-selling. The irony is that the Personal Investment Authority (PIA), a watchdog that has not yet even been recognised by the Securities and Investments Board, has attracted louder and more damaging criticism than the existing regulatory bodies that so signally failed to check the abuses that have come to light. The risk, amidst all the hullabaloo that now surrounds the future of the PIA, is that the need for more rigorous and speedy investor protection will be overlooked.

The credibility of the PIA's chairman, Mr Joe Palmer, has undeniably been damaged by an unfortunate gaffe before the select committee and by misdemeanours committed by Legal & General, which he used to run. Yet it is not clear that the committee is right in thinking that a new chairman would help at this point. Any new candidate would be unlikely to command universal confidence. The job calls for an understanding of the industry, the respect of consumer groups and the public, and a deft hand in dealing with politicians. Even if such a paragon could be found, the loss of yet another chairman, after the departure last year of Sir Gordon Downey, would in itself be damaging.

The priority at this point should be to implement those of the select committee's recommendations that are designed to put this rickety show on the road as quickly as possible. Calls for changes in the balance of the PIA board to strengthen public interest representation, close monitoring of commission-only salesmen and individual registration of salesmen and advisers are eminently sensible. Should Mr Palmer fail to deliver on such minimum requirements of the committee within a reasonable time of the PIA being recognised, then the case for replacing him will be unanswerable.

The wider question concerns the logic of the SIB's continuing role in retail regulation. This is, in effect, a fifth wheel on the regulatory coach, which opens up undesirable scope for regulatory arbitrage. The PIA is not a self-regulatory body along the lines originally envisaged by the Financial Services Act. The objections to it both setting standards and regulating practitioners is no longer relevant; and the case for an intermediate body, the SIB, between the PIA and the Treasury has lost its rationale.

But if the PIA were to become a 'designated agency', such as the SIB, it would not have legal power to go down the desirable path of individual registration or to impose fines. That, along with technical legal problems, means that legislation would be necessary to knock the structure into coherent shape. But the Treasury prefers to hide behind the protective shelter of the SIB. In view of the magnitude of past failures in the area, that is a bridge the government must eventually cross.

European peace

Today's EU conference on "stability in Europe" is the brainchild of the man who will open it, Mr Edouard Balladur. Nearly a year ago he launched his plan for a "stability pact" under which the EU would coax central and east European states into settling their bilateral disputes over frontiers and national minorities.

The rationale sounded good. The EU, having ignominiously failed in Yugoslavia, should take timely action to prevent the same sort of thing happening elsewhere. It should use its undoubted leverage over ex-communist states to persuade them to work together, rather as the US did in western Europe with the Marshall Plan. If these countries were to join the EU, they must not bring unresolved conflicts in with them.

For all that, there were many reservations both among France's partners and among the countries concerned. The mention of border disputes was felt to be unhelpful: no state in Europe officially lays claim to its neighbours' territory, but all too many would feel justified in doing so once the subject was opened. To link the question to national minorities was doubly unfortunate, since one of the main arguments used against giving rights to such minorities is precisely the fear that this would prove the first step towards loss of national territory.

The proposal has since been refined so as to avoid, or at least attenuate, those objections. But it is clear that the central European countries attending still do so with strong reservations, except perhaps in the case of Hungary whose outgoing nationalist government (now disavowed by the voters) made agitation on behalf of its "kith and kin" in neighbouring countries one of the main planks of its foreign policy. The other country which seems increasingly anxious to do the same is Russia, whose foreign minister Mr Andrei Kozyrev will no doubt stress the issue in his speech. That very fact will make Russia's neighbours even less keen on the whole project.

Both central and east European states can legitimately object that, like the victorious allies in 1919, the EU is trying to impose on them a standard of minority rights that it does not apply to itself. And, while "kin states" can sometimes play a constructive role in managing minority issues – as Austria has in the Italian South Tyrol and Ireland is trying to do in Ulster – it is dangerous to give such states a general licence to interfere in their neighbours' affairs, especially when they have the size and record of Russia.

In so far as such issues can be handled internationally, it is best done discreetly and on the basis of a single, generally accepted set of principles. That is the approach already adopted by the CSCE, 40 of whose 52 member states will be represented in Paris today, through its High Commissioner on National Minorities, Mr Max van der Stoel. The EU's most valuable contribution could be to give his efforts quiet support.

Raising skills

When the government published its white paper on competitiveness on Tuesday, it was quickly attacked for the absence of dramatic initiatives. Eschewing such grand gestures was sensible, given the history of UK industrial policy and its poor record of picking winners. A new study from the National Institute of Economic and Social Research suggests that less glamorous micro-economic policies can do more to enhance business performance than heavy-handed government action.

The study analyses the skills and performance of engineering and chemical companies in Germany and the UK. In both sectors, the German companies have workforces that are better qualified than those in the UK. On the shop-floor, this is a consequence of the high level of craft qualification achieved by the German apprenticeship training system. Among supervisors, the German companies can draw on the technically-trained *meister* while only a handful of British supervisors have specific training. Tackling these shortcomings in the UK's skills base is rightly at the centre of the competitiveness package.

But the researchers also found significant differences in the skills available at graduate and post-graduate levels. In engineering, the German companies have more than double the proportion of technical and higher degree graduates of their UK counterparts. As a result, British companies are less innovative in their products. They also find it harder to make incremental production changes to remain competitive. It is hardly surprising that their productivity trails the German plants, or that they are "followers" in technical innovation.

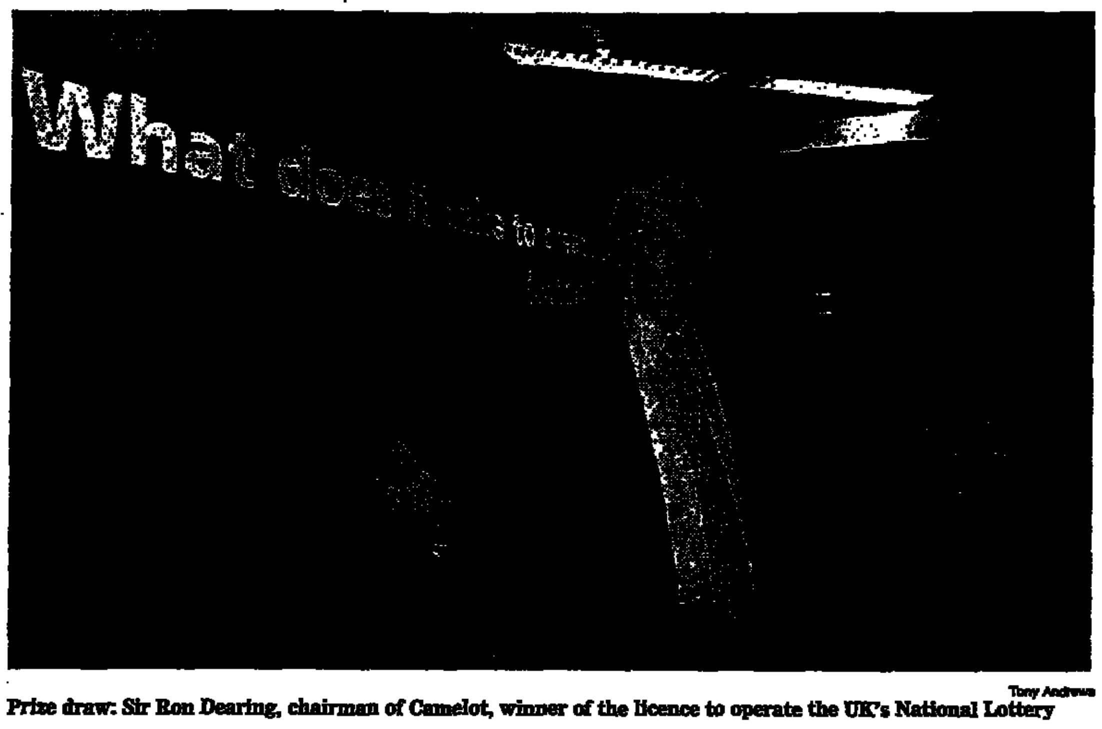
In the chemical industry, companies in the two countries employ similar numbers of graduates. But German companies have a much higher proportion of post-graduates which the study believes will help them cope better with the accelerating pace of innovation. Postgraduates can draw on specialist knowledge and contacts, and improve knowledge transfer from research institutes to business. Yet UK employers tend to prefer first degree graduates and regard postgraduates as over-specialised and lacking in commercial and practical skills.

Raising the skills base of key industries thus involves much more than training. Encouraging business to make better use of the UK's excellent science base and to harness the skills of postgraduates is also vital. Last year's science white paper launched a series of initiatives to encourage this, including a new research master's degree. This will combine a grounding in research techniques with skills such as management, team working and communication.

Policy changes such as these are unlikely to grab the headlines or win many votes in the political marketplace. But if successful, they could make a significant contribution to improving the performance of British business.

Camelot draws the winning ticket

Raymond Snoddy on the winners and losers in the hotly contested battle for the UK lottery licence



Prize draw: Sir Ron Dearing, chairman of Camelot, winner of the licence to operate the UK's National Lottery
Tony Andrews

The 18th-century author Henry Fielding had a clear idea of how powerful a device a lottery could be for raising money.

"A lottery is a Taxation
Upon all the Fools in Creation;
And Heaven be prais'd
It is easily raised,
Credulity is always in Fashion."

The song was sung in Fielding's play *The Lottery* performed at the Drury Lane Theatre in 1732.

Across London, in the more sober surroundings of the Institution of Civil Engineers, near the House of Commons, there was little credulity yesterday when Camelot was unveiled as the winner of the fiercely contested battle for the National Lottery licence.

There was, however, a lot of optimism that enormous sums can be raised for five "good causes" specified by the government through the first nationwide lottery in the UK for more than 150 years.

Camelot is forecasting that during the seven-year term of its licence the total turnover for the National Lottery will amount to £32bn, and that £9bn will be distributed to the good causes – the Arts Councils of the UK, the Sports Councils, the National Heritage Memorial Fund, the Millennium Commission and the National Lottery Charity board.

In its "peak year" of operation, Camelot, which has long been seen as the potential victor in the lottery contest – although no official word of the actual winner leaked – envisages a turnover of £5.5bn and a payment to the good causes of £1.6bn. Camelot, which plans ot launch the lottery in early November, believes it will be able to hand over £750m in its first full year of operation.

Camelot brings together five large organisations: Cadbury Schweppes, the confectionery group, De La Rue, the banknote and security printer, GTECH, the US lottery equipment manufacturer, ICL, the computer group, and Racal the electronics and communications group.

Mr Tim Holley, the quietly spoken Racal executive who became chief executive of Camelot, said yesterday: "This is a very, very exciting project." He said not only would the lottery be the largest in the world but it would also involve the largest launch of a consumer brand in the UK.

The game itself could hardly be more simple. A player will pay £1 and choose six numbers out of a possible 49 on a "play card". The numbers do not have to be placed in any particular order. Three correct numbers will probably be worth a £10 prize, four, £50-£80, five, several thousand pounds. Pick the correct six numbers and you hit the jackpot, which could be between £2m and £3m each week.

"It's easy, it's simple, and it will be a lot of fun," said Mr David Rigg Camelot's communications director.

The draw of the winning numbers will take place live on prime time television on Saturday nights. Camelot believes the programme could shoot straight to the top of the ratings with possible audiences of 23m. Though no television contracts have been signed, Camelot says the broadcast will "probably" go to the BBC, partly because the corporation can offer extensive live radio as well as television coverage.

The company has not yet decided whether the draw will be the climax of a 40-minute light entertainment show or a five-minute programme devoted entirely to the draw, or whether the BBC will make the programme in-house or use an independent producer. A celebrity guest will inevitably be involved.

The total prize pay-out ratio over the period of the licence, which runs to the end of September 2001, will be more than 58.5 per cent of net sales after the deduction of a 12 per cent lottery tax on gross sales. The good causes' money will range from 25 per cent to 30 per cent of total revenues.

One of yesterday's losers, who had promised to offer all profits to a combination of good causes and charities, was Richard Branson, chairman of Virgin group. He was not alone in his disappointment. Seven applicants failed, a number of whom had been working on the project for several years.

The unsuccessful bidders, ranging from The Great British Lottery Company, which includes Granada and Carlton Communications, to Mr Branson's UK Lottery Foundation, and the N.M. Rothschild-Tattersalls bid, spent millions in putting in their consortiums together.

Mr Peter Davis, the director-general of the National Lottery who finally took the crucial decision last week, made it clear that he had no doubt that Camelot was the strongest applicant. The company came near the top or at the top of every category in which the applicants were assessed, he said.

They were "amongst the highest" in the forecasts for money to be raised, and plan to retain only 11 per cent of revenues as combined profits and operating costs – by far the lowest on offer. Out of this will come 5 per cent sales commission to retailers. This will leave profits of less than 1 per cent of sales. "Camelot was also by a long way the best prepared," said Mr Davis.

The only thing that might have stopped Camelot winning the licence was controversy surrounding GTEC, which has been accused by rivals in the US of irregularities. The company has never been found guilty of any wrongdoing.

"I am satisfied that we have a full and comprehensive picture of all the people involved, and I am confident in my decision that all those involved with Camelot and Camelot itself are fit and proper for that role," Mr Davis said.

The lottery will not just make winners of the players. Camelot itself is the most obvious winner so far. Mr Bruce Jones, leisure analyst at the stockbroker Smith NewCourt, marked Racal, which will benefit from communications contracts, and Cadbury Schweppes, as "buys", and De La Rue a "hold" in a recent forecast if Camelot won.

But there are likely to be a large number of other business winners from a lottery that plans to sell its first tickets in 26 weeks – in early November.

The GTECH lottery machines will be made at ICL's plant at Ashton-under-Lyne and contracts will soon be awarded for the provision of tickets and later the scratch card games which will be launched next year.

Camelot will directly employ about 500 at Rickmansworth in Hertfordshire, and at Aintree on Merseyside, but more jobs will flow from the retail operation – selling lottery tickets in both shops, from independent corner stores to garages, supermarkets and newsagents.

Camelot plans to have 10,000 outlets selling tickets by the November launch, and within two years 27,000 outlets connected to the largest computer network in the UK, plus a further 12,000 outlets selling only scratch cards.

Some observers have suggested that the total number of jobs generated directly or indirectly could reach as high as 85,000, though the figure is probably optimistic.

The construction industry could be among those benefiting greatly from the proceeds of the National Lottery. Mr Peter Brooke, National Heritage secretary, has made it clear that he expects the money to be "spent mainly on capital projects" to provide new and lasting improved facilities, such as sports stadiums and concert halls.

Even Mr Branson, who had pledged to raise more than £11bn for charities and good causes, and angrily attacked the choice of Camelot yesterday, contributed to the lottery outcome by improving the income of the good causes. causes.

First Mr Branson and his partner Lord Young, the former Department of Trade and Industry secretary, generated publicity for the lottery and dominated front pages when the bids were submitted in February by bringing along Desert Orchid, the famous racehorse. More significantly, by promising to give all his profits to the good causes and some charities of his own, Mr Branson forced all the other bidders to reduce their own profit margins.

As Mr Davis observed yesterday, the bidding process had worked well, in forcing up the money for good causes and forcing down the amount absorbed by profits and operating costs.

It remains to be seen, however, whether Fielding was right in saying that a lottery is "easily raised", even when the sums involved total £32bn and the odds against winning a jackpot are roughly 14m to one.

Too many dollars, not enough sense

PERSONAL VIEW

It still amazes me that the US dollar's weakness has caused so much surprise. The consensus may be cracking, but most people still seem to believe the outlook is promising or, more bluntly, that long positions will be rewarded eventually. Part of the reason for the surprise and continuing optimism is the failure to grasp the real issues underlying the dollar's weakness.

Most commentaries on the dollar's problems have ignored or overlooked the simple words "balance of payments deficit". It is here the root cause of the dollar's problems lies. The financing needed, in terms of required capital inflow, has started to falter in the face of real interest rate levels that are still too weak, relative to Germany and Japan, for example. Unless the US authorities are prepared to agree soon to a substantial increase in US interest rates – for example, an increase in the Federal Funds rate to about 6 per cent, implying long yields of about 8 to 8.5 per cent – the value of the dollar will erode by a further 7 to 10 per cent.

The last significant US balance of payments problem was in 1987, some time after the 1985 Plaza agreement to secure further depreciation. Then, the US current account deficit reached a record $167bn, equivalent to 3.7 per cent of gross domestic product. But at that time the US still enjoyed substantial inflows of private, long-term investment capital of about $80bn.

In 1993, the US current account deficit was a mere $109bn, or 1.7 per cent of GDP, but net long-term capital (securities transactions and direct investment) recorded an outflow of some $40bn. Thus, comparing 1987 and 1993, the sum of the current account deficit and net long-term capital flows was about the same, at 2.2 per cent of GDP.

This year and in 1995, America's balance of payments is set to reach real records. We forecast the current account deficit will rise this year to about $145bn-$150bn and in 1995 to about $170bn, or some 2.5 per cent of GDP. But we have to add long-term capital outflows, which are assumed at some $50bn to $60bn a year – 0.75 per cent of GDP.

US Balance of Payments

($bn per annum)	1985-89	1990-92	1993	1994*
Current account	-134.0	-55.5	-109.2	-145
Long-term capital	+75.5	-6.0	-40.2	-50
Basic balance	-58.5	-61.5	-149.4	-195
Financed mainly by net official capital	25.7	32.0	71.1	-
Net banking flows	25.8	22.8	48.8	-

* forecast

As the table shows, the US faces the problem of obtaining stable and secure financing of the growing amount of dollars it is creating via its balance of payments deficit, at a time when the main vehicles for such financing are suspect. Central banks have acquired large increases in dollar reserves already and net banking flows cannot be relied on.

The US is already the world's largest net debtor. Its net international investment position has swung from +$230bn in 1977 to -$34bn in 1987 and to an estimated -$588bn at the end of 1993.

By comparison, in Japan, the current account surplus ($130bn in fiscal 1993-94) may fall on a temporary and cyclical basis, but medium-term prospects favour a renewed widening towards the middle of the decade as Japan Inc learns to live with a stronger yen. Upward pressure on the yen has less to do with US trade rhetoric than with the fact Japan is not recycling its current account surpluses as in years gone by. Foreign investment is not that appealing to companies trying to rebuild after the domestic asset price collapse and coping with a strong yen. And in Germany, unification led to a collapse of the country's current account surplus, but its trade balance is on the rise again from 1994 and it continues to enjoy a sizeable capital inflow.

The task of absorbing about $200bn a year is problematic because US real interest rates are inadequate to make US investors change the structural diversification on which they have embarked or make foreign investors, already long of dollars, buy more. It will not count for much if the Bundesbank reduces nominal interest rates once more over the next six to nine months, say to about 4 to 4.5 per cent, if this keeps real D-Mark rates at about 2 to 2.5 per cent. In the bond market, real yields are running at about 4 per cent. The US Fed would have to offer considerably in excess of that to reactivate capital flows that helped to push the dollar back up on a medium-term view. Moreover, it would have to "shock" the markets. The trouble is, it knows it would shock the US government and domestic financial markets, too.

The question is whether the US authorities would permit such monetary tightening and, if not, whether they may be forced into it by the extent of US dollar depreciation. Either way, the issue for the US – as it is for markets – is when and under what circumstances US authorities will pay attention to the imbalance between savings and investment, which is resulting in the supply of far too many dollars.

George A Magnus

The author is chief international economist, S.G. Warburg Securities

OBSERVER

A vision of Scholey

■ So what next for Sir David Scholey, the man responsible for assembling Britain's only half-decent competitor to Wall Street's powerful investment banks?

After 30 years on the job, he has handed in his notice as a director and plans to retire upstairs to join the 86-year-old Lord Roll in the president's office.

Warburg stresses that Sir David will continue to devote his time "largely to the business of the group". But he is not yet 59, and the young turks at Warburg might prefer it if he went off and did his own thing for a while and left them to run the show.

There is no shortage of jobs. If British Telecom ever decided to split the role of chairman and chief executive, Sir David, as one of BT's senior directors, would be a natural chairman.

Then there is the question of the succession at GEC, where both Lords Prior and Weinstock are getting a bit long in the tooth. Sir David would be a diplomatic choice as chairman while the City decided whether young Simon Weinstock was up to taking over from his dad.

If Sir David really has tired of the commercial grind, there is always the BBC, whose board he has just joined. The chairman's job does not fall vacant until November 1996, but Marmaduke Hussey is over 70 and might be persuaded to take early retirement.

Given that Sir David didn't get the Bank of England governor's job, how about giving him the BBC as a consolation prize?

It's hard to imagine him disappearing from public view for long.

Own goal

■ Sprint had better get a move on. The US long-distance phone company thought it had its eye on the ball when it sent a 24-page booklet extolling its services to journalists covering what it calls "the world's greatest sporting event" – football's World Cup to be held in the US this summer. "As you make your preparations," it said, "you may not be thinking about things as simple as phone calls. We are."

Not enough, unfortunately. Nowhere in all the bumf was there a contact phone or fax number.

Back to the core

■ Why has Max Chapman, Nomura's hard-hitting New York chief, cancelled his plans to come to London?

Nomura's top management in Tokyo had been counting on the Chapman magic, which transformed the firm's sleepy New York operation into a significant Wall Street presence, to work similar

wonders with its less-than-dazzling London outfit.

The official version of events thereafter is that Chapman decided that running New York and London together would be a bit much – and might indeed jeopardise what he had achieved so far in America.

Wall Street, however, believes that Chapman did not take the London job either because he asked for too much in the way of pay and perks, or because management in Tokyo suddenly got cold feet about bringing Chapman's loose and aggressive management style to London.

Nomura insiders counter that a compensation package had already been agreed upon by both sides, and contend that his family's opposition to the move was a very significant factor in the *volte face*.

Chapman must believe there is still plenty to occupy him in the Big Apple, for he has just renewed his contract. He could make a start by trying to recoup the losses sustained in the volatile markets of recent months.

Much ado

■ Such are the troubles of Tansu Çiller, Turkey's prime minister, that even a seemingly innocuous family event, such as this week's visit to the US to attend her son's graduation day, is recast as a major crisis.

Entirely omitting the real reason for her visit, the country's leading newspaper has made out that it was her husband Ozer, under the heat of scandal allegations, who was fleeing the country to live in America.

There have indeed been periodic allusions to business wrongdoing when Ozer was general manager of the collapsed Istanbul Bank, but we are hardly talking Whitewater here.

Again, Ozer may use his wife's position to push a few of his business cronies, but he does not appear to have much interest in broader policy questions. She so demonstrably wears the trousers – indeed, she started off by forcing him to take her maiden name, a feisty move, even by western standards.

Much more likely is that Ozer means to brush up his American contacts. He was after all franchise-holder in Turkey for the 7-Eleven convenience store chain before he very publicly resigned when his wife took on the Turkish leadership last June.

Over and out?

■ Is there life after the Beeb for John Tusa? The former head of the World Service, who quit after being denied the chance to apply for the director-generalship, then had a discordant eight-month sojourn as president at Wolfson College, Cambridge, before walking out saying that he had better things to do with his time.

His name was bandied about for the Arts Council job. He didn't get it.

Now London News Radio, of which he is non-executive chairman, may be gobbled up by Reuters even before it goes on air.

If this happens, Tusa could be looking for another part-time job. Of course, he could always do a few more shifts presenting the One o'Clock news for the BBC.

Flesh-eating flash

■ From Reuters in Oslo: "Deadly bacterium on the rise in Norway. By Stella Bugge".

FINANCIAL TIMES
Thursday May 26 1994

Asian entrepreneur markets first listed fund to invest in Burma

By Alexander Nicoll, Asia Editor, in London

A Hong-Kong based securities company, controlled by Mr Robert Kuok, the Malaysian-Chinese entrepreneur, is marketing the first listed investment fund targeted at Burma.

The fund, intended to attract $100m from institutional investors, is the latest indication of the ending of the isolation of Burma's repressive military regime.

South-east Asian countries have recently adopted a policy of "constructive engagement" with Burma. Prime minister Goh Chok Tong of Singapore, one of the main foreign investors, visited in March with a group of businessmen. Thailand has invited Burma to attend July's ministerial meeting of the Association of South East Asian Nations. The Myanmar Fund, using the name given to Burma by its government, will be listed in Dublin.

It is being established by Kerry Securities and managed by Kerry Investment Management, both Hong Kong-based arms of the Kuok group. Mr Jeremy Eakin, a London-based assistant director of Kerry Securities, said: "It's really a venture capital fund. Burma is a blank sheet: there's nothing there in the way of industry".

Since Burma has no stock exchange, the fund will invest in joint ventures and unquoted companies. It may also buy old Burmese debt issues and shares in non-Burmese companies with direct exposure to Burma.

Mr Kuok has a wide range of Asian interests. He made his fortune in sugar and other commodities, then expanded into hotels (including the Shangri-La group), property and other sectors, especially in China, where his ventures include Beijing's World Trade Centre, and in Hong Kong where he controls the South China Morning Post.

The investments to be made by the fund are expected to reflect the interests of the Kuok group. The fund is likely to put $20m into a business park in a venture with the Burmese-Chinese Ho family, based in Thailand. Mr Halpin Ho is a director of the fund and of a company advising its managers.

It will also invest in hotels and plantations. Tourism, telecommunications, a deep-sea port and banks are other possible investment opportunities.

Mr John Jackson, campaigns director for the Burma Action Group, said it was hard to invest in Burma without bolstering the military regime. "The vast majority of the economy is controlled by the military or their families. We think it is very difficult to invest ethically."

The junta, called the State Law and Order Restoration Council (Slorc), has been seeking to open the country to foreign investment and has introduced some reforms. But Mr Jackson said it had not loosened control sufficiently to attract significant investment.

Slorc ignored the results of a 1990 general election won by the National League for Democracy. It has held Ms Aung San Suu Kyi, NLD leader, under house arrest since July 1989.

Greenspan warns on derivatives

Continued from Page 1

Mr Edward Markey, chairman of the House subcommittee, has been pressing for early legislation, particularly to extend regulation to affiliates of securities and insurance companies whose derivatives activities can escape control of federal regulators.

In contrast to Mr Greenspan, Mr Brian Quinn, the Bank of England's director for banking supervision, yesterday repeated a call for the derivatives trading subsidiaries of US securities firms to be brought under regulation. Mr Quinn said he was "more agnostic" about increased regulation of other participants in derivatives markets. He said the case for regulating hedge funds "seems to me not to have been made". He said principal market makers should be supervised on a consolidated basis, but that "the markets seem to be developing their own safeguards and sanctions".

Grachev calls for wider co-operation on security

By Bruce Clark in Brussels

General Pavel Grachev, the Russian defence minister, yesterday urged the creation of a new European security order involving all European nations.

In a speech to his counterparts in Nato and eastern Europe, he chided western nations for underestimating the scope of the Conference on Security and Co-operation in Europe, a 52-member group which includes the US, Canada, all European states and former Soviet republics.

He called for the CSCE to be granted powers of "permanent leadership and co-ordination" over Nato, the European Union and the Commonwealth of Independent States on security matters.

Gen Grachev called for regular consultations between Russia and Nato on "the whole spectrum of European and world security problems". He added: "This mechanism would be a practical step towards forming a viable system of collective security and stability in Europe under the aegis of the CSCE."

Diplomats said the appeal was a deft move to recapture the political initiative and capitalise on euphoria created by Russia's promise to join Nato's Partnership for Peace plan.

Nato is keen to encourage Russia to forge closer ties with the west after recent disagreements over allied action in Bosnia and arms control, but it wants to avoid suggestion of a privileged relationship which might harm the interests of eastern European states.

Without withdrawing his pledge to join the programme, which calls for joint exercises and exchange of knowhow, Gen Grachev said a much broader spectrum of co-operation between Russia and Nato would be mapped out before Russia signed up to PFP. This contradicted Nato's stress on the need for countries to sign the PFP entry form first and elaborate details later. Some 18 countries have already adhered to the scheme.

In a further challenge to the western view that PFP treats all members equally, Gen Grachev presented an 8-page list of "parameters" to underpin Russian participation in the project. These parameters go beyond the relatively technical remit of the PFP and reiterate Russia's demand for the role of the CSCE to be upgraded.

Among the most controversial demands was for the broader Russian-Nato relationship to include mechanisms for consultation between Moscow and the alliance, both on a regular basis and in emergencies. Diplomats said Russia's maximum goal was clearly a promise that Russia would be consulted before any use of force by the alliance.

However, Mr Manfred Wörner, Nato secretary-general, has insisted privately that any consultation with Russia should be on a case-by-case basis and at the discretion of Nato.

November launch plan for UK lottery

By Raymond Snoddy in London

Camelot, winner of the licence to run the UK national lottery – the first for more than 150 years – will today push ahead with plans to launch the multi-billion project in early November.

The consortium, whose members include Cadbury Schweppes, the food and drink group, and De La Rue, the bank note printer, are forecasting total sales of £32bn ($48bn) during the seven years of the licence and payments of £9bn to good causes such as the arts and charity.

Camelot beat seven other consortia to win the licence, including the bookmakers' favourite, the UK Lottery Foundation, put together by Mr Richard Branson and Lord Young, a former UK cabinet minister. Unlike the other bidders Mr Branson, the Virgin chairman, was planning to give all the profits to charity and good causes.

Mr Peter Davis, director-general of the national lottery who took the decision on awarding the licence, said yesterday: "Camelot was clearly the all-round best applicant. I have no doubt about that. They were strong in every department."

The decision clearly angered Mr Branson who said last night he would ask Mr Davis for an explanation of his decision.

"We feel that he has not taken into account at all the market research that shows that more people will buy more tickets if they know all the profits will go to good causes," he said.

The Branson bid predicted total sales of £37bn over the licence period, with £10.5bn going to the government's good causes, which apart from the arts and charities include the national heritage, a new millennium fund and sports. Mr Branson believed a further £600m would have been raised for other charities of his choosing.

Although the national lottery office did not draw up a formal shortlist, Camelot was hardest pressed by Lotco, a consortium put together by Rank Organisation, the UK leisure group. Mr Branson came next as a serious candidate, and the other main contender was a consortium put together by Tattersalls, the Australian lottery operator, and N.M. Rothschild.

The Branson bid and the promise to give all the profits away meant that many of the other bidders had to reduce their profit levels. It is believed that the Camelot profit levels are much lower than has widely been believed and are well under 1 per cent of sales and probably about 0.6 per cent.

Apart from Cadbury and De La Rue, the Camelot consortium includes Racal Electronics, the computer group ICL, and Gtech, a US group which is involved in 62 lotteries around the world.

Camelot draws the winning ticket, Page 15

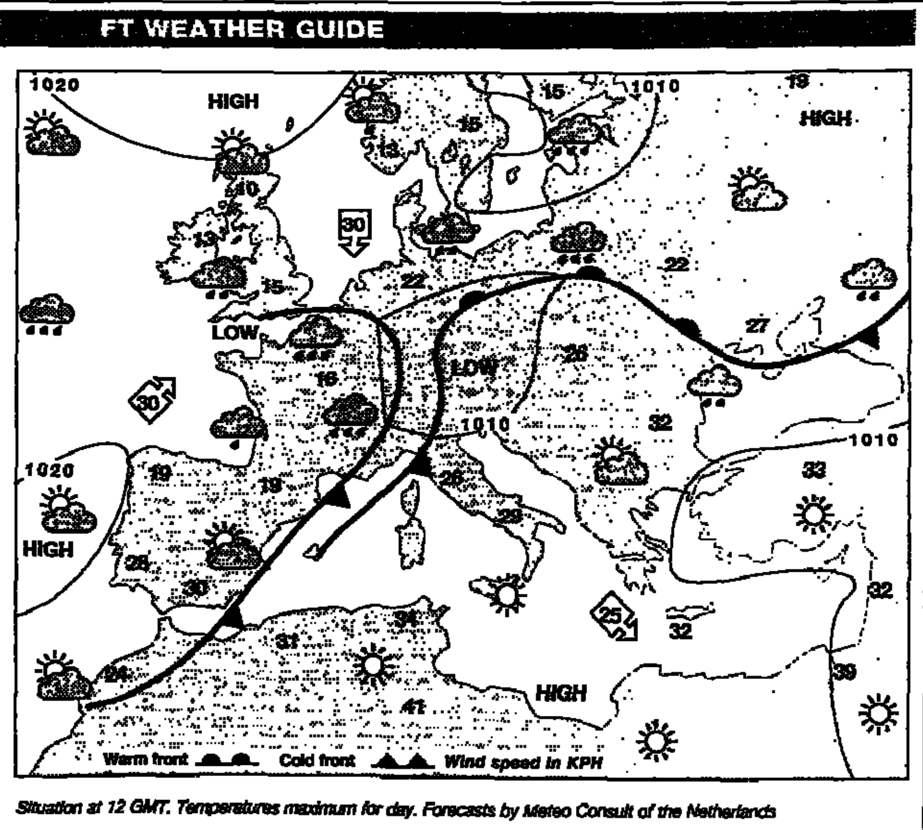
FT WEATHER GUIDE

Europe today

A low pressure system near Land's End will slowly move eastwards. Rain will spread over England and northern France. The rain will be heavy and there will be some thunderstorms. The Benelux countries and Germany will have *sunshine in the morning, but later in the* afternoon it will rain quite heavy. It will also be unsettled in northern Scandinavia, Poland, the Baltic states and the northern Balkans where there will be showers and a little sunshine. A *high pressure area, centered west of Norway*, will bring dry conditions with broken clouds in Scotland and southern Scandinavia. Tropical temperatures combined with plentiful sunshine will persist in Italy and Greece.

Five-day forecast

On Friday, the heavy rain will move into the northern Balkans, Poland and eastern Germany, while in western Europe, it will become mainly *dry with broken clouds. Southern Europe will* stay sunny and warm. During the weekend, the weather will improve. On Sunday, a few thunderstorms will develop over Spain and southern France. Next week, the warm, but thundery conditions will spread northwards, affecting northern France, England and the southern Benelux countries.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	cloudy	20	Caracas	fair	30	Edinburgh	fair	13	Madrid	sun	29	Rangoon	fair	35
	Celsius		Belfast	rain	14	Cardiff	rain	15	Faro	sun	24	Majorca	sun	29	Reykjavik	fair	10
Abu Dhabi	sun	40	Belgrade	fair	31	Casablanca	fair	24	Frankfurt	thund	25	Malta	sun	33	Rio	cloudy	27
Accra	fair	33	Berlin	fair	23	Chicago	fair	15	Geneva	shower	19	Manchester	rain	14	Rome	sun	26
Algiers	fair	31	Bermuda	fair	26	Cologne	shower	20	Gibraltar	sun	28	Manila	cloudy	32	S. Frsco	windy	19
Amsterdam	shower	16	Bogota	cloudy	22	Dakar	fair	29	Glasgow	fair	15	Melbourne	fair	14	Seoul	shower	23
Athens	sun	33	Bombay	thund	33	Dallas	fair	31	Hamburg	fair	18	Mexico City	sun	25	Singapore	cloudy	31
Atlanta	sun	31	Brussels	rain	17	Delhi	fair	43	Helsinki	shower	16	Miami	fair	31	Stockholm	fair	14
B. Aires	fair	17	Budapest	fair	28	Djakarta	fair	31	Hong Kong	fair	30	Milan	fair	28	Strasbourg	shower	23
B.ham	rain	14	C.hagen	fair	17	Dubai	sun	38	Honolulu	fair	28	Montreal	shower	14	Sydney	fair	22
Bangkok	fair	37	Cairo	sun	38	Dublin	rain	14	Istanbul	sun	29	Moscow	thund	20	Tangier	fair	22
Barcelona	sun	26	Cape Town	fair	17	Dubrovnik	sun	30	Jersey	rain	14	Munich	shower	25	Tel Aviv	sun	34
									Karachi	fair	36	Nairobi	fair	25	Tokyo	rain	24
									Kuwait	sun	44	Naples	sun	29	Toronto	cloudy	12
									L. Angeles	fair	23	Nassau	fair	30	Vancouver	cloudy	17
									Las Palmas	fair	24	New York	shower	23	Venice	fair	26
									Lima	cloudy	25	Nice	fair	24	Vienna	fair	26
									Lisbon	sun	23	Nicosia	sun	32	Warsaw	cloudy	24
									London	shower	16	Oslo	fair	18	Washington	shower	23
									Lux.bourg	shower	18	Paris	rain	16	Wellington	fair	15
									Lyon	thund	20	Perth	cloudy	22	Winnipeg	sun	27
									Madeira	fair	21	Prague	shower	25	Zurich	shower	22

THE LEX COLUMN

In a bind with bonds

It is difficult to believe that barely a week has passed since the promise of a hiatus in US monetary tightening was supposed to bring calm to financial markets. Yesterday's 68 point fall in London equities came in the slipstream of some bad news from the bond markets, notably Germany's decision to withdraw a debt auction for lack of demand. But there were local factors at work as well.

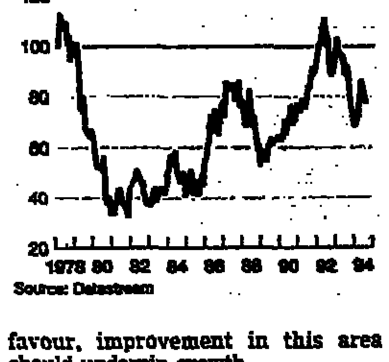
Though the UK's own gilts auction was well covered at 1.93 times, there were doubts as to how much of the paper found its way into firm hands. There is growing indigestion in the new issue market for equities, coupled with the prospect of a not particularly appetising rights issue from Eurotunnel this morning. With the FT-SE 100 index hovering not far above 3,000, equities arguably offer value. The economic recovery has apparently survived last month's tax rises, while both earnings and dividends have proved surprisingly buoyant in 1994.

Yet the argument is not compelling. The market is still on a historic p/e not far short of 20. The earnings momentum may falter next year when both interest rates and taxes will be rising again. As for dividends, Whitehall chatter about possible action to stop companies over-paying is a destabilising force. The most worrisome aspect is that the more the authorities come under funding pressure in a weak gilt market, the more they may be tempted to alter the fiscal regime in a way that favours bonds over equities.

FT-SE Index: 3020.7 (-68.2)

Courtaulds

Share price relative to the FT-SE-A All-Share Index



Source: Datastream

Courtaulds

After near-disaster in the late 1970s, Courtaulds spent a decade trying to iron out volatility from its fibres business. The outperformance of the shares since then is a measure of its success. Yesterday's figures are a reminder of the limits to text-book management. While Courtaulds is a low-cost producer, demand remains unpredictable. Given the bleak outlook at the interim stage, a 14 per cent drop in full year operating profits from fibres and chemicals is something of a relief.

If fibres markets are kinder this year, tackling the coatings and sealants business is now the most pressing task. Yesterday's £50m restructuring charge is a step in that direction. An operating margin of 7 per cent on turnover of £850m is well below what could be achieved. With the economic cycle now turning in Courtaulds' favour, improvement in this area should underpin growth.

But even if Courtaulds repeats its management success in fibres, the prospects are hardly dazzling. For the shares to sustain a rating above the market average, Courtaulds' new fibre Tencel needs to deliver. With plans for 150,000 tonnes capacity by the end of the decade the company is backing its faith with cash. The potential return on this investment is still difficult to predict. If Courtaulds can make the best of its lead in this area, though, the shares should again outperform.

Carlton

It is hard to know whether Carlton's acquisition of Central Television is paying off. Though group interim results included two months of profits from Central, they were not split out. Carlton did say that changes already implemented would save £10m on an annual basis. The takeover benefits have therefore come through somewhat faster than expected. Still unclear is whether the eventual savings will be greater than the £10m-£15m forecast when the deal was agreed last year.

In the short run, the recovery in TV advertising and strong growth of video sales will continue to boost Carlton's profitability. Longer term doubts hang over both of the group's major businesses: the expected eclipse of videos by compact disc formats; and increased competition to its ITV franchises from cable and satellite.

The government's review of cross-media ownership may throw up opportunities for Carlton in cable and satellite. The chairman, Mr Michael Green, has been vocal in calling for the barriers that keep media groups out of each others' patches to be pulled down. But shareholders will probably want to see Central fully integrated and enhancing earnings per share before Carlton embarks on another big acquisition. Fortunately, that seems to be management's intention.

Land Securities

Unlike most of its peers, Land Securities has not put a foot wrong in recent years. But the defensive qualities that stood it in good stead in the recession may be a handicap in a rising market. Land's conservatism has stopped it making mistakes, but has also prevented it from seizing opportunities. Its modest spending on acquisitions has left it with a sizeable chunk of unspent funds at a time when competition from institutions is particularly intense. Restarting its development programme will take up some of the slack, but on too small a scale to make much difference. With its low gearing and safety-first approach, Land Securities will find it hard to keep up with its more nimble rivals.

The company remains a well-tuned rent collecting machine, with a secure income and good quality, well-let properties. But since most of its tenants pay above-market rents, it will be several years before it reaps the benefit of rising rents in its rent reviews. Flat or declining earnings mean Land Securities may thus only maintain steadily rising dividends at the expense of running down its dividend cover.

S.G. Warburg

There were two gratifying aspects to S.G. Warburg's results. The underlying level of dealing profits appears quite strong in spite of February's particularly sticky patch in the gilts market, while fee income has forged ahead. Warburg's business will always have a cyclical element, but the case that it is also enjoying long-term structural growth starts to look more plausible as its international reach grows. In the short run much depends on whether market conditions sustain the large volume of corporate business that is evidently in the pipeline. Even so the shares do not look expensive. Stripping out Warburg's Mercury Asset Management stake leaves investment banking with a market value of £730m. That is not much for a business which generated pre-tax profits of £187m last year.

The stock market: investors have had a rough ride: Page IV

FINANCIAL TIMES SURVEY

BRAZIL

Thursday May 26 1994

While government and the economy lurch from one mini-crisis to the next, underlying changes within Brazil will ensure the country's slow advance towards modernity, writes **Angus Foster**

Critical year ahead on path to reform

Reforming Brazil often seems like mountaineering. Each peak that is conquered simply reveals another, bigger problem ahead. Although the country has made considerable progress in opening its economy and political system in the past five years, the scale of what remains to be done is still daunting.

This year will be critical. Presidential and general elections in October offer the chance to renew the impetus for change. The government of President Itamar Franco, who took office following the resignation amid corruption charges of Mr Fernando Collor in 1992, lacks congressional support and is increasingly having to act as a caretaker regime.

A package of reforms to tackle inflation, now close to 50 per cent a month, is due to lead to a new currency from July 1. Inflation is likely to fall sharply, at least to begin with. But spending pressures on the government in an election year are intense, and there are mounting fears that inflation will creep into the new currency, Brazil's fifth since 1986.

Mr Collor, the first democratically elected president since the military takeover in 1964, left a mixed legacy. He is now extremely unpopular, but most Brazilians agree that his removal strengthened the political system because it showed that institutional checks and balances could work, and that public opinion is increasingly important. Likewise, although his economic policies contributed to a deep recession, his moves to open the economy forced the private sector to compete, and are now showing substantial benefits.

After zero or negative growth since 1989, the economy last year grew at about 5 per cent to take gross domestic product to $432bn – slightly behind China but ahead of Russia in US dollar terms. Most of the increase came from the industrial sector, especially carmakers, where there have been marked improvements in productivity. In the first half of last year, private sector manufacturing productivity indices increased 18 per cent, reflecting the strength of companies which survived the recession, and the reductions in their payrolls.

Growth this year is forecast to reach 3-4 per cent, but is extremely uncertain owing to the introduction of the new currency. Growth rates pale into insignificance, however, alongside inflation, which reached 2,500 per cent last year, and which is mainly responsible both for Brazil's very low investment rate of 16 per cent of GDP and for one of the world's worst income distributions.

Mr Rubens Ricupero, finance minister, says that without economic stabilisation "there's no salvation". "Stabilisation is not an end in itself, but a precondition for Brazil to recognise its problems and deal with them," he says.

The latest anti-inflation plan has won wide support from economists because it concentrates on the economy's main problem, a lack of confidence in the government's ability to balance its budget. Mr Fernando Henrique Cardoso, the former finance minister who resigned in March to run for the presidency, negotiated a budget through Congress which was balanced, thanks to swingeing spending cuts, especially in investment, and optimistic estimates of tax and social security revenues.

The next step will be the introduction of the new currency, the Real. Future monetary and exchange rate policy will not be announced until next month, but it seems likely the Real will be linked at parity to the US dollar, at least to begin with, and backed by Brazil's more than $30bn foreign exchange reserves. However, the country's powerful industrial lobby will squeal if the new currency becomes overvalued against the dollar, as happened in Argentina's stabilisation. If inflation continues in the Real, gradual devaluation is likely.

Monetary policy will have to be kept extremely tight, especially in the first few months but there are already growing electoral pressures to increase spending. Several federal and state banks, which benefit from inflation and use the profits to cover losses from non-performing and often politically-inspired loans, would face severe problems if inflation fell. The government may not risk closing down these banks so close to elections and the far-from-independent central bank may instead be pressured to support them, thus threatening monetary policy.

There is another, longer-term threat to the stabilisation plan. When the programme was launched in December, the government still hoped Congress would approve a number of constitutional changes to allow future administrations greater freedom to control spending. The widely criticised 1988 constitution imposed too many spending demands on the government and introduced social welfare provisions which were too generous. For example, female teachers can retire after just 25 years' work. At this rate, more people will soon be receiving pensions than contributing.

The problem is that Congress, again fearing election repercussions, has failed to approve many of the constitutional changes the government needed.

As a result, the incoming regime will face the same problems with balancing future budgets as in the past, and this year's spending cuts are not repeatable.

"The IMF didn't sign for good reasons," says Mr Antônio Delfim Netto, former planning minister, in reference to the IMF's refusal to agree to a standby loan programme ahead of Brazil's private bank debt restructuring last month.

Mr Cardoso is trailing in the opinion polls, and almost certainly needs inflation to fall sharply under the plan. If it does, he will be a strong challenger to the front runner, Mr Luís Inácio Lula da Silva of the left-wing Workers Party (PT), usually known as Lula.

Mr Cardoso's problem is that he has found it difficult to develop a rapport with poor voters. Also, he cannot complain about the government's poor performance because he was, until recently, part of it.

Mr Tasso Jereissati, chairman of Mr Cardoso's PSDB political party, says: "There is immense disillusionment in this country towards politics, and that is making Lula more appealing."

A victory for Mr da Silva would mark a big shift in Brazil, which has never elected a socialist president. But he has himself moderated many of the PT's more radical policies.

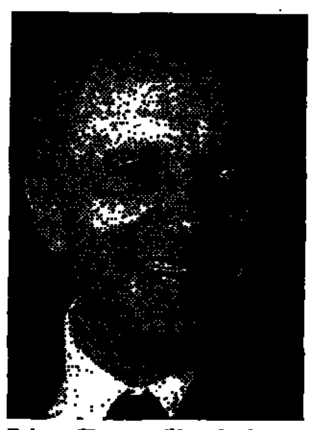
He is surrounded by good, sometimes idealistic, advisers and the party is determined to concentrate on problems such as education, unemployment and land reform.

These are central to Brazil's longer-term development yet have been neglected because of the economic mismanagement of the past 10 years – Brazil's so-called "lost decade".

A PT victory would lead to considerable short-term uncertainty, especially among foreign investors. The party has said it will review an already flagging privatisation programme and demand renegotiation of Brazil's foreign debts.

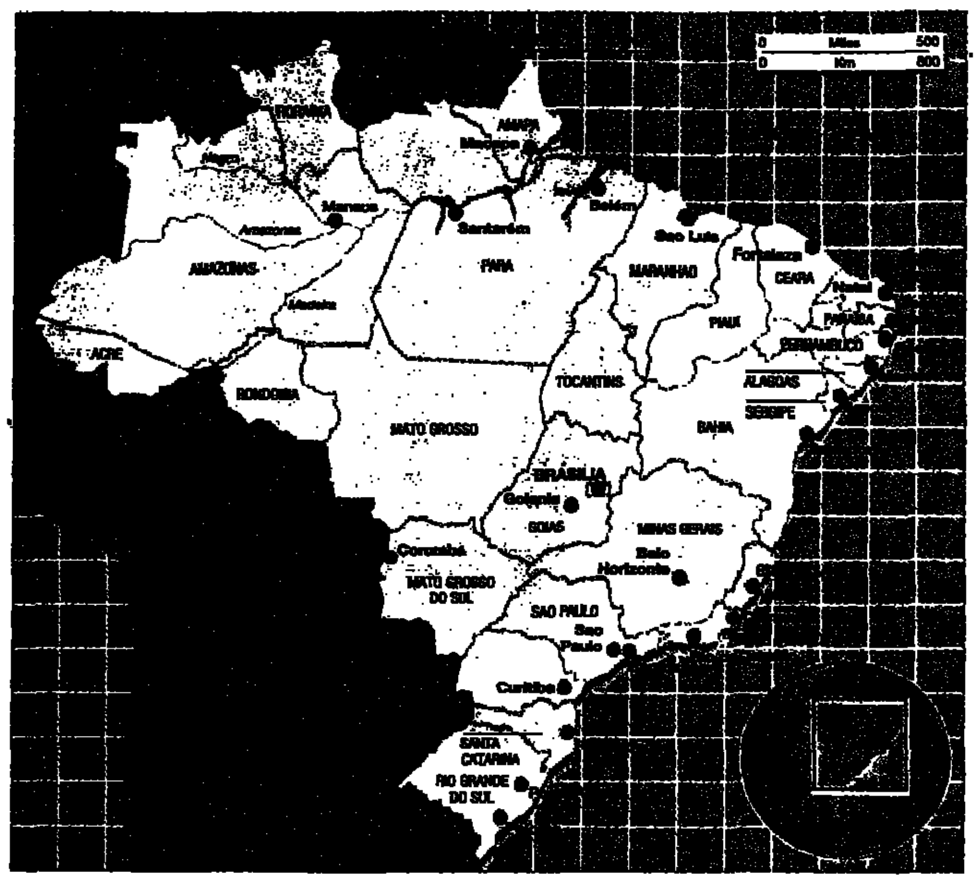
These threats are serious, but it seems likely that an incoming PT government will face many other more pressing

Continued on Page 3



Rubens Ricupero: 'No salvation without economic stabilisation'

Congress building, Brasilia: constitutional changes were not approved



INSIDE THIS SURVEY

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Niels Andreas

Luís Inácio Lula da Silva, candidate for the Workers Party (PT):
Mr da Silva, 46, is campaigning to become Brazil's first socialist president.

Born in the poor north-eastern state of Pernambuco, he rose to prominence in the late 1970s as the union leader of metalworkers opposed to the military government.

He co-founded the PT and gained 31m votes in the second round of the 1989 elections, but lost by 44 per cent to 50 per cent to Fernando Collor. Has spent much of the time since on "caravans" around the country, building support in rural areas.

Hercanio Oliveira

Fernando Henrique Cardoso, candidate for the Brazilian Social Democrats (PSDB) and Liberal Front (PFL) alliance:
A respected sociologist and opponent of the military regime, Mr Cardoso (63) entered politics in 1984, was defeated in elections for mayor of Sao Paulo, but won a seat in the Senate two years later.

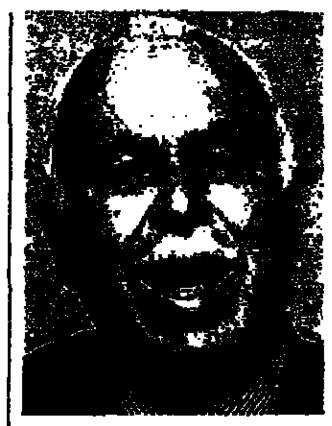
He co-founded the PSDB after growing disillusioned with the main opposition party, the PMDB.

In the present government, Mr Cardoso served as foreign minister before becoming finance minister last year and launching a widely praised but still unproven anti-inflation plan.

Paulo Giandalia

Roberto Marinho, boss of TV Globo and O Globo newspaper:
Most Brazilians rely on television for their news coverage and TV Globo has a virtual monopoly, attracting more than 60 per cent of viewers for its nightly news programme. Globo was widely seen as critical to the election campaign of Mr Collor, who was Mr Marinho's favoured candidate.

This time, Mr Marinho, 89, is expected to back Mr Cardoso, but bias against Mr da Silva will probably be less visible. Nevertheless, with the PT intent on attacking Globo's power-base if it wins the elections, Mr Marinho's views will be very important.



Jorge Araujo

Antonio Carlos Magalhães, former governor of Bahia state:
One of the most powerful men in Brazil because of political and family ties, Mr Magalhães was largely responsible for persuading his party, the PFL, to back Mr Fernando Henrique Cardoso.

Fearing that the party did not have a viable candidate of its own, and determined to block Mr da Silva, Mr Magalhães will now be one of the most important figures in the campaign, especially in the north of the country.

However, his right-wing views and liking of traditional-style politics makes him unappealing to many in Mr Cardoso's party.

Marcio Arruda

President Itamar Franco: a possible king maker:
Although he is dismissed as an ineffectual leader by many politicians, President Franco can significantly affect the outcome of the elections. The office of the presidency wields extensive executive power and can also confer status on its preferred candidate.

President Franco is backing his former finance minister, Mr Cardoso. However, the president's unpredictable and populist character could lead to surprises, especially if the anti-inflation plan does not succeed.

As its chosen candidate, Mr Cardoso will also be unable to attack an otherwise unpopular government.

Change will be slow

Whoever wins the elections in October will inherit one of the most complicated political systems in Latin America, writes Angus Foster

Thanks to a succession of mishaps and 21 years of military government, Brazil *has* been ruled by an elected president for only 30 months in the past 30 years.

Former President Fernando Collor, who resigned amid corruption allegations in September 1992, was the latest elected president to fail to serve his full term. Mr Itamar Franco, Mr Collor's successor, has lacked a popular mandate or support in Congress and his government has often been only capable of crisis management rather than implementing policy.

Brazil's fragile democracy should therefore emerge considerably strengthened from this year's presidential, congressional and gubernatorial elections, due in October.

Whichever of the two front runners wins the presidential race, they will have at least a chance to build a popular alliance in congress and tackle some of the country's problems. However, structural weaknesses in Brazil's political system, and a recent cut in the presidential mandate from five to four years, means change will be slow and often erratic.

Mr Luís Inácio Lula da Silva, the left-of-centre Workers Party (PT) candidate, is front runner in the polls with a steady 30-35 per cent of the vote. Mr da Silva, a former metalworker and union leader, combines populist appeal with good oratory. As loser in the 1989 elections, he also draws support from Brazilians who feel betrayed by Mr Collor.

The PT's roots lie in radical protest politics, but it has become increasingly moderate in the past few years. The far left of the party, known as the Shia wing, remains visible and vocal but the advisers close to Mr da Silva are moderates who have spent the years since the last election preparing for government. According to Mr Aloízio Mercadente, one of the key advisers, a PT government would concentrate on the fight against hunger and unemployment and on education and rural reform. "Four years is not a lot of time, but it's enough to start making irreversible changes," he says.

The PT's biggest drawback, apart from a largely hostile media, is its lack of experience in national government. The party has been making progress in local government, but remains poorly represented in Congress. According to polls, many Brazilians are personally drawn to Mr da Silva, but worry about his lack of a track record. "There is still a perception that the PT is great for opposition, but not good to govern," according to Mr Mario Mamede, a PT state deputy.

This perception will be exploited by Mr da Silva's likely main competitor, Mr Fernando Henrique Cardoso, who resigned as finance minister in March to run for the presidency. A former academic with left-of-centre views which often found him on the same stage as Mr da Silva under the military, Mr Cardoso has also mellowed. His views are today centrist, with emphasis on social issues. He is also more economically liberal than Mr da Silva, and is likely to favour an accelerated privatisation programme and market reforms.

Mr Cardoso's problem is that, during his period as finance minister, monthly inflation rose from under 30 per cent to more than 40 per cent. The government's anti-inflation plan, which Mr Cardoso negotiated through Congress, is therefore extremely important to his campaign. If inflation falls following introduction of the new currency in July, Mr Cardoso hopes his poll ratings will increase from the present 15-20 per cent.

He will also be helped by an election alliance between his party, the Brazilian Social Democrats (PSDB), and the right-of-centre Liberal Front (PFL), which is strong and well organised in the north-east of Brazil, exactly where Mr Cardoso is weakest.

With four months left to the elections, it is still very difficult to assess the likely outcome. Under Brazilian law, the two candidates with most votes go through to a second round in November. If inflation falls, Mr Cardoso and Mr da Silva could be neck and neck in the second round. If it does not, or only falls briefly, Mr Cardoso could be beaten in the first round by an outsider, such as former São Paulo state governor Orestes Quércia.

Whoever wins will inherit one of the most complicated, and some say most difficult to reform, political systems in Latin America. With 20 political parties in Congress, often bound by individual loyalties rather than ideology, governments are forced to build alliances of strange bed-fellows. Congressmen often pursue regional rather than national interests, and corruption remains a serious problem.

But, since Congress is the guardian of the constitution and reform would deprive Congressmen of power and privilege, adequate political change will take a long time.

David Pilling examines export and import links

Shrinking trade share is likely to reverse

Brazil is still one of the world's most hermetic economies. In spite of the reforms of disgraced president Fernando Collor, which aimed to prise open the country after years of import substitution, Brazil's trade with the outside world is less, proportionally, than a decade ago.

In 1983, total trade constituted 16.6 per cent of gross domestic product, an already small proportion that slipped to 15.5 per cent last year when combined imports and exports reached $84bn. Chile trades about 60 per cent of its GDP.

"Brazil's presence in the world market is smaller than it was 10 years ago. We are shrinking," says Mr Eduardo Gianetti da Fonseca, an economist at the University of São Paulo. This trend is, however, likely to reverse as Collor's reforms dig in, domestic demand picks up and industry – deprived of its once captive, highly protected market – looks abroad for opportunity. "There is a consensus in Brazil that the country must participate more in international trade," says Mr Tullo Vigevani, professor of political science at São Paulo university.

Last year, exports rose by 7.7 per cent against 1992, a creditable performance given weak international demand. Imports surged by nearly a quarter in response to domestic growth of 4.9 per cent. In 1993, Brazil ran a trade surplus of $13.3bn, down on the $15.5bn of the previous year, but still one of the largest in the world.

Average tariffs, at 14 per cent, are now near Latin American norms, allowing a rapid rise in imports of intermediary and capital goods. Many economists say manufacturers are importing machinery in order to raise productivity, which should feed into future exports.

Imports of consumer goods, on which tariffs are still relatively high, grew less rapidly, although there were sharp increases in imported cars and electronic equipment. In the medium term, consumer imports are likely to rise significantly, but Brazil's diversified production base is fairly well-equipped to compete and has made important productivity gains in recent years.

"Tariffs have gone down substantially and yet industrial output is growing," says Mr Guilherme Leite da Silva Dias, director of the Institute of Economic Research. Domestic manufacturers, he says, are holding their own against foreign producers in contrast with some less-sophisticated Latin American economies whose industries have struggled to compete.

Even so, Brazil's huge surpluses – necessary for financing foreign obligations following the debt crisis of 1982

> The North American Free Trade Agreement and the economic integration of Europe may limit access to Brazil's traditionally strongest export markets

– are likely to shrink further. In 1994, the first-quarter surplus was down by nearly a third on 1993, and is likely to be around $10bn by year-end; about half its 1988 peak.

Mr Simão Davi Silber, a São Paulo trade specialist, says it is both desirable and feasible for Brazil to double the amount of its international trade relative to GDP. Mr Gianetti agrees that successful domestic restructuring requires far greater commercial interchange than today's "ridiculously low" levels.

The North American Free Trade Agreement and the economic integration of Europe may limit access to Brazil's traditionally strongest export markets. Mr Silber says there is further room for expanding trade with Latin America which now accounts for 20 per cent of Brazilian commerce against 14 per cent in 1985. Brazil has proposed a South American free trade bloc.

Argentina, fellow member of the Mercosul free trade zone with Brazil, Uruguay and Paraguay, accounts for much of that increase in continental trade: Brazilian shipments there soared from 2.9 per cent of total exports in 1988 to 9.4 per cent last year. However, Mr Silber says that, given different exchange rate policies and concern in Buenos Aires over consistently high trade deficits with Brazil, there may be restraints to further big increases.

Another way to accelerate commercial integration, he says, lies with rapidly expanding Asian markets where Brazil is under-represented. Greater Latin American co-operation should facilitate better access to Pacific ports.

Before Brazil can launch itself upon the world in earnest, Mr Silber says, it must tackle the plethora of indirect taxes which bloat the price of exports by up to 15 per cent. "At the moment we are exporting taxes," he says.

As nations begin to huddle into trading blocs, some Brazilian industrialists fear they will be isolated. It seems likely, for example, that Nafta will diminish access to the US of Brazilian orange juice concentrate and pulp, both of which can be produced in Mexico.

Mr Silber says that Brazilian exports – metallurgical products, vehicles and chemicals, as well as commodities such as soya, coffee and mineral ores – are sufficiently diversified to withstand isolated difficulties in particular markets.

Of more concern to many analysts is the possibility of fresh efforts within the General Agreement on Tariffs and Trade to exclude exports from countries such as Brazil under environmental or social dumping provisions.

"I think this is really a potential menace," says Mr Silber. "It's a strong instrument that you could use against everything. We will have to see what happens."

The economy is drifting along on an old course, writes **David Pilling**

A change of direction is needed

Brazil's economy, the tenth-largest in the world, is the super-tanker of Latin America's fleet. As such it is the hardest to turn around. For years steered towards import substitution, tariff protection and state intervention, it is still largely drifting on its old course, even though its helmsman long ago sought to change direction.

Part of the problem is that the helmsman, disgraced former president Fernando Collor, has been removed and replaced by President Itamar Franco, who has seemed incapable of steering Brazil through choppy seas.

More fundamentally, there is resistance to overhauling an economic model which, however flawed, has produced a $432bn economy and average annual growth of 7 per cent in the 40 years to 1980. There are also some very powerful interest groups.

The aftermath of the debt crisis in the early 1980s, when growth stopped, spelt out the need for change. "We had an import-substitution model of state-led growth. But this is seen as gone for good," says Mr Eduardo Gianetti da Fonseca, a leading economist.

Nonetheless, he says, Brazil is "lagging behind" as Latin America shifts towards fiscal responsibility and market liberalisation. "A clear indication of this is inflation, a symptom of the inability to solve these problems."

Brazil has managed to cope with inflation, which last year reached 2,500 per cent, with a highly complex system of indexation, termed "perverse adaptation" by Mr Gianetti.

Indexation creates an inflationary inertia which, unless interrupted, assures the continued escalation of prices.

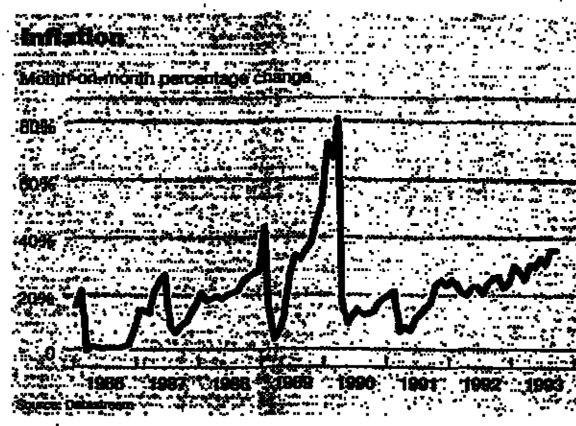
If the budget is truly balanced this would reduce the government's need to engage in high-interest borrowing

It is precisely to interrupt that cycle that Mr Fernando Henrique Cardoso, who resigned in March as finance minister, last December launched the most realistic attempt yet to crack inflation.

The plan, partly designed to tackle the budgetary indiscipline which fuels price rises, and to remove the safety net of indexation, is judged by most economists to be technically adept. Mr Cardoso's three-stage scheme, which also launched his campaign for election as president, seeks to use public spending cuts and emergency taxes to remove the 1994 budget deficit, originally estimated at $22.2bn. If the budget is truly balanced – and uncertainty remains over whether it will be, particularly in an election year – then this would reduce the government's need to engage in high-interest, short-term borrowing which expands the money supply.

Stage two, begun in March, introduced a transitional index and accounting unit, the Unidade Real de Valor (URV), a daily general price index based on a measure of current inflation which is anchored to the dollar through Brazil's foreign exchange reserves of more than $30bn. Salaries, new contracts and large purchases are now quoted in URVs, paving the way for the conversion of the index to a new currency, the Real.

The Real, the fifth currency in a decade, is due to be launched on July 1 when analysts predict that inflation will drop from 45 per cent a month to less than 10 per cent. The question is, how long it will stay there?



At best, Mr Gianetti says, the scheme will build a low-inflationary "bridge" between now and presidential elections to be held in October. "But, if things go badly wrong and indexation is disrupted, I don't discount hyperinflation. It's full indexation and then no indexation... It's a big gamble."

Mr Tullo Vigevani, professor of political science at São Paulo University, says the plan "lacks the political base to take hold". It cannot work in the long run, he says, without fundamental constitutional changes that would permit the routine balancing of the federal budget.

The 1988 constitution obliges the federal government to hand over most of its tax revenue to state and municipal administrations without releasing it from spending obligations.

The constitution thus virtually guarantees inflation-fuelling budget deficits by earmarking more than 90 per cent of revenue before a single spending decision is made.

Brazil has adjusted to the illogical world of near-hyperinflation – last year, gross domestic product grew by 4.9 per cent – but its economy has been warped.

Very high interest rates (more than 20 per cent a year in real terms) divert investment into government paper rather than productive capacity and add to the burden of public-sector debt.

Investment last year was 16 per cent of GDP, compared with 27 per cent in Chile. Millions of poor Brazilians, without access to indexed bank accounts, are unprotected from rocketing prices.

Even if Mr Cardoso's plan is initially successful, monetary policy will have to be kept tight to rein in consumer demand as prices stabilise. This could tip the economy into recession, threatening hoped-for growth in 1994 of 3-4 per cent.

Notwithstanding the risks, Mr João Geraldo Ribeiro Filho of Banco de Boston, says: "We have never had an opportunity like this and we don't know when we will have another one." He points to high international reserves and April's conclusion of a Brady-style debt rescheduling agreement – named after a 1989 initiative by the then US Treasury Secretary Nicholas Brady – for the country's foreign debt – admittedly without IMF blessing.

Most analysts agree that, largely as a result of reforms started under Collor, the economy has taken significant steps

Most analysts agree that, largely as a result of reforms started under Collor, the economy has taken significant steps. Privatisations and reduced tariffs have stimulated exports, which grew by 8 per cent last year, and improved productivity. Foreign investment in the capital markets reached $5.5bn last year against $1.3bn in 1992, and multinational interest has been reawakened in Brazil as Latin America's potentially most dynamic economy.

It is not clear whether a newly-elected government will continue in the same direction. Mr Gianetti fears that strong interest groups, such as state monopolies, will prevent further restructuring. To reform in the context of splintered political parties and a burdensome constitution will not be easy, he says. "We have had the feast of democracy before the blood, sweat and tears of market reform."

There is uncertainty, especially among foreign investors, about what would happen if election front-runner Mr Luis Inácio Lula da Silva of the left-wing Workers' Party should become president. Many analysts feel, however, that his reservations about economic reforms would be cooled by the reality of government and the need to build coalitions.

"In the long term – independently of who becomes president – Brazil has no other way out," says Mr Julius Haupt Buchenrode, director of investments at Banco Chase Manhattan. "It needs to reduce inflation; to balance its budget; to adjust its constitution; and probably to continue privatisations. There's no magic solution."

Critical year ahead on path to reform

Continued from Page 1

problems. It will also almost certainly lack a congressional majority and would have to compromise in order to build a governing alliance.

While government and the economy lurch from one mini-crisis to the next, underlying changes within Brazil will ensure the country's slow advance towards modernity. The downfall of Mr Collor was followed early this year by a recommendation from Congress that 18 of its own members should be expelled on corruption charges although, unfortunately, some have been pardoned.

The growing demand for transparency at all levels of government is leading the media and pressure groups to focus on what politicians do, individually and collectively, for Brazil – and often to demand improvements. Second, there is a growing realisation in the media and parts of the political classes of Brazil's position in the world, and its dubious distinction as the only main Latin American country yet to stabilise its economy.

Reform will take time and will be erratic. Mr da Silva and Mr Cardoso will offer similar pledges of change, but both may find Brazil's traditional preference for consensus frustrates their programmes. Mr Roberto Macedo, a São Paulo economist, contrasts Brazil with the Asian "tiger" economies such as South Korea. "Brazil is a whale economy, it moves very slowly and is very difficult to turn round," he says.

Angus Foster looks at foreign relations

International role denied

Brazil's foreign ministry holds a privileged place in the country's capital, Brasilia – overlooking the Congress building and opposite the Palace of Justice. The location is deserved because the ministry, known as Itamaraty, is one of the country's most able and important.

But it is a cruel punishment for the diplomats, who are forced each day to look at the cause of their frustration – politicians. Despite Brazil's size and potential, it is unable to play the international role many in Itamaraty seek. Instead, its importance and negotiating strength are compromised by the political failure to stabilise the economy and bring down inflation.

Brazil's economic instability is also acting as a brake on the development of Mercosul – the free-trade zone formed between Brazil, Argentina, Uruguay and Paraguay which is due to come into force on January 1 – and plans for a wider free trade area to incorporate most of South America. Mercosul has progressed much faster than cynics first suggested. But longer-term questions remain unanswered, and it would not be surprising if key partners such as Argentina chose to link with the US-led North American Free Trade Agreement (Nafta) grouping, rather than remain tied to Brazil's bumpy ride.

Brazil's cultural and trading ties have traditionally been with Europe, original home to much of the country's population, and the US, which emerged as Brazil's biggest foreign investor early this century.

But the relationship with the US is complicated, and often troubled. Itamaraty is itself sometimes accused of being anti-American, although this partly reflects the broad range of subjects where the two countries' interests do not coincide. Brazil's concerns about a proposed linkage by the US between social and environmental issues and trade is the latest example of underlying tension.

Relations have improved this year, however, with the Brazilian Senate's approval of a treaty to allow inspections of some of its nuclear installations and Brazil's acceptance of US demands on patents and copyrights. Last month's completion of Brazil's foreign bank debt restructuring, achieved without IMF blessing, also removed another stumbling block.

But it is Mercosul, and Brazil's future within South America, where most change is occurring. The Mercosul treaty, signed in March 1991, calls for a customs union to be ready by next year through the implementation of a common external tariff.

Tariffs have already been reduced on many goods, and trade within the group has grown extremely rapidly – more than doubling since 1990 to about $8bn last year.

This partly reflects the complementary nature of the two biggest economies, Brazil's industrial strength being offset by Argentina's competitiveness as a producer of primary products such as foodstuffs and oil.

Difficulties remain – for example, Brazil's desire to retain high tariffs to protect its computer and telecommunications industries. As a result, the common external tariff is likely to apply to only about 85 per cent of products. Remaining goods will only be harmonised from 2001.

Brazil is now proposing to use Mercosul as the base for a wider trade agreement among all South American countries. This would be a simple free trade agreement rather than a customs union, and would be jointly negotiated by the Mercosul nations.

"We hope to use Mercosul as a platform for further trade liberalisation throughout South America," says Ambassador José Arthur Denot Medeiros, in charge of Mercosul issues at Itamaraty.

Brazil's economic dominance of the continent means that most countries will be interested in joining, although Chile's priority clearly lies in gaining entry to Nafta. Even if countries do not formally join, there is an increasing move towards lower tariff barriers and more open trade.

Argentina's position is more complicated, and at times the country commitment to Mercosul has appeared in doubt as it contemplated its chances of entry to Nafta. Complaints by senior Argentine leaders about Brazil's economic instability have also angered the Brazilian side. Argentine claims of dumping against Brazilian companies are rebuffed by Brazil's suggestion that the Argentine currency is overvalued.

Teething problems and tensions are hardly surprising, but they hide a longer-term problem. Brazil's big industrial economy is far from ready to compete within a US-led trade area such as Nafta, suggesting that an Americas-wide agreement is still many years away. But if more countries such as Chile opt for the North America model, there is a chance Brazil will be isolated.

Back at Itamaraty, the diplomats must hope the politicians sort out Brazil's many other problems in time.

SOCIAL AFFAIRS

Cruel contrasts

Brazil is a country of cruel social contrasts: from the Manhattan-style skyscrapers of São Paulo's financial district to the poverty of parts of the north-east, which can rival sub-Saharan Africa.

While the country is one of the world's largest agricultural exporters, many millions of people are thought to go hungry. While developing a first world banking system to cope with the country's chronic inflation, more than half the population earns too little to open an account. "Capitalism in Brazil only works for 20 per cent of the population, the rest live on the margins," says Mr Herbert de Souza, a sociologist and the driving force behind a successful anti-hunger campaign.

The "Citizen's Action" campaign led by Mr de Souza won the support of millions of Brazilians, from managing directors to shop assistants, in providing basic foodstuffs to the extremely poor. Now, he wants to broaden the campaign, which is administered by local volunteer committees, to fight for jobs, health, education and land reform.

It is a tough challenge. Brazil has one of the most unequal wealth distributions in the world – the poorest fifth of the population receive about 2 per cent of the income. Brazil has not even experienced the limited land reforms of countries such as Mexico.

The plight of the rural poor has led to massive urbanisation since the 1950s and the springing up of *"favela"* shanty towns around cities.

Taquaril is a *favela* on the eastern outskirts of Belo Horizonte, a city of 2m in the south-eastern state of Minas Gerais. Taquaril was originally built by the local council to house 1,800 families in 1987. That number has now more than doubled following unofficial occupation of nearby land by desperate newcomers. Some of the homes are built of cardboard and tarpaulin and perch precariously on geologically unsafe hillsides. Many lack electricity and most are without proper sanitation.

Before a regular bus service was introduced, residents who worked in the city centre often faced a four-hour walk home. Youngsters ended up sleeping in the centre and drifting into crime, says Mr Walter Gomes de Samson, leader of a recently-created community association.

Another resident, Mr Paulo Roberto Martins, arrived in Taquaril with his family six years ago because, he says, he could not survive on the agricultural wages paid in the Gov Valadares area, 450km north-east of Belo Horizonte. He now works as a concierge, earning about $100 a month. "I'm lucky I have a job," he says.

Shanty town residents are among the most extreme signs of Brazil's marginalised population; a huge underclass with little access to proper health care, education or other public services.

The constitution places heavy responsibilities on the federal government

They are victims of a state that tries to do too much and ends up doing too little, according to Dr Antonio Carlos Gomes da Silva, superintendent of São Paulo's Hospital das Clínicas, the largest hospital in Latin America with nearly 2,000 beds.

Mr da Silva criticises the 1988 constitution, drawn up after more than two decades of military governments. The constitution places heavy responsibilities on the federal government for provision of services but does not say where the resources will come from.

Mr da Silva, along with many business leaders, believes Brazil's low tax base should be widened and the tax system simplified. He also wants measures taken to reduce fraud in the health service as well as productivity contracts with employees.

Funding problems for public health are made worse by a complicated system, involving transfers of revenues from the federal government to the states and municipalities and by a shortage of hospital beds in some regions. This means the government must pay private hospitals to treat public sector patients, creating rich territory for overcharging and corruption.

Analysts say the underfunding of the public health service is a critical problem and government spending per capita fell from $80 in 1989 to $44 in 1992, according to the Ministry of Health.

In public education, funding is also a problem and the sector is, like health, dominated by low salaries and frequent strikes.

However, Brazil has made large progress in providing basic education in recent decades.

In 1950, about a third of seven- to 14-year-olds had access to public education. By 1990, that had risen to 88 per cent. However, the problem has been that many pupils do not complete primary education and, as with all Brazilian social indicators, regional differences are extremely marked. For example, in Alagoas state in the north-east, the illiteracy rate is 45 per cent, compared with 9 per cent for the wealthy south eastern state of Rio Grande do Sul.

Mr José Goldemberg, an academic and former education minister, notes that the state spends an average $300 a pupil in basic education, compared to several thousand dollars per student in public universities. "In every country the elite takes care of its own," he says.

Brazil's fragmented political system means that no single party can control Congress and that strong economic interests, ranging from landowners to government-owned companies, have entrenched positions in Congress and can block reforms.

But Mr de Souza, while admitting he is often dismayed by the antics of politicians, believes that there has been a new awareness of the country's problems, as shown by the reaction to the anti-hunger campaign.

"The elite has not yet noticed this change but it exists, and is being expressed through non-governmental organisations, grass roots groups and progressive local councils," he says.

Patrick McCurry

David Pilling reviews the car industry

Motor to recovery

Brazilian car sales are booming, but domestic producers and importers of foreign models are bickering over how to share the spoils.

The industry, dominated by Brazilian subsidiaries of the world's leading carmakers, was the motor to general economic recovery last year. It was kick-started by a price-cutting pact between government, manufacturers and unions, and by opening up the long-protected sector to foreign competition.

Domestic output, which was floundering at 914,000 units in 1990, has recovered strongly, growing 30 per cent last year to reach a record 1.39m units. First quarter output this year rose a further 34 per cent to 368,000 units. Brazil, now the world's tenth-biggest vehicle manufacturer, has recaptured from Mexico the position of top Latin American producer.

The threat of imports, combined with better market conditions, has led to big improvements in productivity. At Autolatina, a joint venture between Volkswagen and Ford, productivity in terms of man-hours per car has jumped 50 per cent since 1990, matching similar gains at the other two domestic manufacturers, Fiat and General Motors. However, analysts say the industry is still a long way behind productivity in more advanced industrial countries.

Meanwhile, car imports, for years blocked by prohibitive tariffs, have risen from virtually zero in 1990 to 67,000 units last year, nearly 6 per cent of market share. Over that period, import tariffs have fallen from 85 to 35 per cent and are due to drop to 20 per cent later this year. Domestic carmakers, fearful of a potential onslaught of imports, have called for quotas aimed at restricting vehicle imports for seven years to percentages ranging from 3.5 to 7. "Quotas would be a temporary measure to give us time to face international competition," says Mr Ivan Fonseca e Silva, vice-president for business and legal affairs at Autolatina.

Mr José Carlos da Pinheiro Neto, corporate affairs director at General Motors do Brasil, says it is not feasible to leap directly from full protection to taking on imports from more competitive countries, some of which he accuses of dumping cheap cars on the Brazilian market. "It's like a kid. You keep it locked in a room and then you open the door with no kind of restrictions," he says.

Brazilian carmakers also argue that foreign competition has not been the crucial element in revving up the industry. They point to price-cutting agreements in which the government slashed vehicle sales tax, unions curbed wage demands and industry cut profit margins as the main factors behind steeply rising sales.

The tripartite pact has cut average car prices by 30 per cent in real terms and those of the so-called "popular" car (with engines of less than 1000cc) by 46 per cent. The price of Autolatina's basic Gol, for example, has come down to $7,200 from $13,000 two years ago.

Increased sales have prompted big investment projects. General Motors will have spent $1bn on adding new production lines in the five years to 1995 and is considering starting a third plant. Autolatina intends to spend $2.2bn in the next three years, modernising its production lines. Both companies are taking advantage of the proposed Mercosul common market to rationalise production between their Brazilian and Argentine plants.

Some foreign manufacturers, attracted by Brazil's huge growth potential, are also contemplating direct investments. Nissan do Brazil is weighing up the possibility of building a $3bn fully-automated plant to produce popular cars and possibly pick-ups, according to Mr Luis Carlos Sollitto de Oliveira, general manager. A final decision will await the outcome of October's presidential elections and signs of greater government policy consistency, he says.

Nissan has identified Brazil as potentially one of the world's most lucrative markets. There are 11.4 Brazilians per vehicle, compared with 5.7 Argentines, 2.3 Japanese and 1.3 North Americans. Sustained growth, or access to credit – almost impossible with near hyperinflation – could send sales spiralling. Nissan expects total sales to reach 165,000, with a potential foreign share of 18 per cent, next year.

Importers reject industry arguments that they threaten Brazilian jobs. The vehicle industry employs 120,000 workers, with knock-on benefits for thousands of others. Foreign manufacturers say imports have created more jobs than they have destroyed as well as contributing $700m in taxes last year.

Rivalry is bound to continue, something to which domestic manufacturers are reconciled. "We will have more competition," says Mr Robert Rennard, chief operating officer at Autolatina. "I'm not particularly concerned as long as they play by the same rules; as long as there's a level playing field," he says.

THE STOCK MARKET

Roller-coaster

When São Paulo brokers attribute a 10 per cent fall on the stock exchange to sadness over the death of Ayrton Senna, Brazil's much-loved racing-car driver, one knows one is dealing with a volatile market.

Indeed, investors – who saw real gains of more than 100 per cent last year – have had a rough ride in 1994. São Paulo's Bovespa index, after climbing by a real 50 per cent in January, has since nosedived. By the second week of May, gains had been wiped out and the index was down 9 per cent on the 1993 close.

Even the chairman of Bovespa, Mr Alvaro Augusto Vidigal, cannot disguise the market's roller-coaster nature. "We will have a very volatile year. I probably shouldn't say that, but I have to be honest," he says.

An inflation rate edging above 45 per cent a month is the prime culprit, exaggerating sentiment and distorting indexes. "When you have inflation like this, you lose the focus of the exact value of things," says Mr Vidigal.

In addition, 1994 is an election year, never a particularly stable time in Brazil, and investors – particularly foreigners – are nervous about the prospect of presidential victory for Mr Luís Inácio Lula da Silva, the left-wing front-runner.

Conclusion of a Brady-style debt restructuring deal in April was not enough to calm markets, particularly as it came when US interest rates were nosing upwards. Optimism over a plan to crack inflation has been dulled by political wrangling in Congress.

None of this had stemmed foreign inflows, which last year reached a record net $5.5bn, and were at $1.54bn by the end of March, the latest figures available. Foreign investors in Brazilian equities, entering under recently liberalised legislation, face no withholding tax on capital gains and no minimum repatriation period. There is a 15 per cent tax on dividends. According to Mr Vidigal, capital stays in Brazil for an average five months.

Relative to the size of the economy, the stock exchange is still small with a market capitalisation of around $80bn – it had peaked at $130bn – about 18 per cent of gross domestic product. Brazilian markets have a daily turnover of more than $200m, of which 18 per cent represents foreign participation against less than 8 per cent in 1992. São Paulo's exchange accounts for 85-90 per cent of trading, with Rio being the second-biggest market.

Three-quarters of trading in 541 listed stocks is concentrated in just 10, mainly state-controlled, stocks. Telebrás, the state telephone company, accounts for nearly 40 per cent.

Mr Julius Haupt Buchenrode, director of investments at Banco Chase Manhattan, expects foreign flows to continue, regardless of the outcome of elections. "The main reason for inflows is the perception that the country will do what all the other Latin American countries have done already – restructure the economy, reduce inflation and set the preconditions for sustained growth," he says.

Mr Isaac Michaan, managing partner of Brazilian broker Vértice, is also optimistic. He points to price earnings ratios of about 12 times, much lower than most other Latin American exchanges, and to prices at an average book value of 70 per cent. Some well-managed companies are traded at only a quarter of book value, he says.

Very cheap shares may provide bargains for investors, but do little to persuade new companies to come to market. "With very high inflation and cheap prices, there have been very few new issues," says Mr Vidigal.

In any case, few companies are in need of fresh capital. A decade of economic stagnation has left idle industrial capacity of about 30 per cent, according to Mr Buchenrode. Those companies that do want cash have found it more convenient to look abroad; last year there were $7.6bn in Eurobond issues, against $4.8bn the year before.

The long-term success of Brazil's equity markets depends on the crushing of inflation, according to Mr Vidigal. As well as reducing volatility, the resulting sharp drop in real interest rates would mean billions of dollars currently invested in fixed-income funds would be switched to equities.

Further privatisations will also be important. Mr Vidigal says $7bn has so far been raised and he estimates there is another $40bn in potential state sell-offs, but he does not expect any "very exciting progress" until after the elections.

Presidential candidate Mr Fernando Henrique Cardoso is committed to further privatisations, but Mr da Silva is far more equivocal. Even if Mr Cardoso is elected, Mr Vidigal does not foresee rapid movement on politically sensitive companies such as Telebrás.

Mr Buchenrode of Chase prefers to look further ahead. "Short-term predictions are very dangerous," he says. But, in the long-term, he is bullish.

"We are betting on restructuring. We don't know how long it will take, or when the gains will come." When it does happen, though, he is confident that those who have weathered the storm will not regret their tenacity.

David Pilling

Guide for business visitors

BRASILIA

Faded at the edges

Brazil's futuristic capital, laid out in the shape of a giant aeroplane and symbolically placed at the country's centre, is beginning to look a little faded at the edges, writes Angus Foster. The seat of government since 1960, Brasília is merging in with the surrounding plateau, but it is still a city without a past and with very shallow roots.

Most visitors only go to Brasília for work – nearly all government departments and foreign embassies are here – and as a working environment it is pleasant. There are few traffic jams and it is usually easy to arrange meetings with government departments quickly.

There are regular flights from São Paulo and Rio although they can get booked up on Fridays – when many people leave Brasília – and on Mondays, when they return.

The Congress building at the end of the "esplanade" of government ministries dominates the city and when Congress is sitting it is invariably being lobbied by an interest group of some sort.

At night, Brasília often appears very quiet. In fact, it contains some reasonable restaurants and bars, but they are often a long way from the hotel district in residential areas.

For those caught in the city over a weekend, Brasília can be a soulless place. One option is to hire a car and drive two hours west to the sleepy historical town of Pirenópolis.

Alternatively, over a long weekend, visit the River Araguaia region further west.

Useful telephone numbers:
City code is 061
Airport: 365 1224
Hotels: Naoum Plaza 226 6494, Kubitschek Plaza 316 3333
Ministries: Finance 314 2000, Mines and Energy 218 5000, Planning 215 4343
Embassies: US 321 7272, UK 225 2710, European Union 248 3122, Japan 242 6866

São Paulo Pioneers monument: cosmopolitan and chic Picture: Glyn Genin

SAO PAULO

Drive and energy

São Paulo may not be the capital of Brazil, but it has all the swagger of the country's most important industrial and financial centre, writes David Pilling. Cosmopolitan, chic, frenzied and sometimes violent, São Paulo has the hum of New York and the skyscrapers to match.

Outside Brazil, this city of 17m people does not enjoy the grand reputation of Rio de Janeiro, and it certainly lacks the sea air and the fabulous setting. But for many visitors, São Paulo has a drive and energy they find appealing.

For all its immensity, São Paulo is not an unfriendly place. Non-Portuguese speakers armed with a phrase book, a little Spanish or a knack for gesticulation will find most Paulistas ready to help.

Because of the city's size and traffic snarl-ups, it can take considerable time to get between appointments. Midnight traffic jams are not unknown. Try to schedule meetings close to one another, bearing in mind that the city has several centres.

São Paulo has a great nightlife with bars, restaurants, music venues, theatres and cinemas showing English-language films.

Without being paranoid, be on your guard and do not walk around aimlessly after dark.

Useful telephone numbers:
City code is 011
International airport: 945 2111
Domestic airport: 536 3555
Ponte Aérea (shuttle flights to Rio): 534 0216
Hotels: Maksoud Plaza 253 4411, Grand Hotel Ca'd'Oro 256 8011; Caesar Park 253 6622
State government information office: 845 3475
Federation of São Paulo Industries (FIESP): 251 3522
Stock exchange: 233 2000
American Chamber of Commerce: 246 9199
British Chamber of Commerce: 255 0519

RIO DE JANEIRO

Relaxed attitudes

For Cariocas, as Rio de Janeiro residents are called, the beach is the soul of the city, writes Patrick McCurry. Each beach has its own personality and "crowd". A swim before dusk, surrounded by Rio's spectacular scenery, is an unforgettable experience.

But visitors should remember that those romantic sparkling lights coming from the hills pinpoint the city's notorious *favela* shanty towns – and that robbing tourists, particularly in the Copacabana district, is a popular beach activity.

Valuables such as cameras should not be displayed in the street, on the beach or on buses. Taxis are generally safe but they often take the longest route possible and at speeds usually not permitted outside Formula 1 racing circuits. The tube system is reliable and secure.

Business visitors should not be surprised when meetings start late or executives are informally dressed. This sometimes relaxed attitude is counterbalanced by the Cariocas' strengths: quick and creative thinking.

Away from the beach, visitors can take an electric train to the Corcovado peak, site of the famous statue of Christ, or a cable car to Sugar Loaf Mountain for an aerial view of the city's beauty.

Useful telephone numbers:
City code 021
International airport: 398 4132
Domestic airport: 210 2457
Ponte Aérea (shuttle flights to São Paulo): 272 5239
Hotels: Caesar Park (Ipanema) 287 3122, Copacabana Palace (Copacabana) 255 7070, Le Meridien (Leme) 275 9922
State Government: 553 5942
BNDES (Development Bank i/c privatisations): 277 7003
Federation of Rio Industries (FIRJAN): 292 3939
Securities Commission (CVM): 212 0200

Soya accounts for some 40 per cent of Brazil's agricultural exports Picture: Suely de Almeida

Sugar cane workers have been left behind by technological advances Picture: Ashley Ashwood

The agriculture sector has been transformed, reports **Patrick McCurry**

A new farming elite is emerging

Brazilian agriculture is learning to support itself. Despite cuts in government aid, lower import tariffs and general economic instability, the 1993-94 cereals harvest is expected by the Ministry of Agriculture to be a record 74m tonnes.

Part of the reason for the success has been a number of impressive productivity gains in the past decade, mainly on the back of government investment in the 1970s.

Now that the government has largely withdrawn from the sector a new farming elite is emerging, often represented by large agro-industrial companies or export-oriented producers that can compete in world markets.

However, some economists worry that the free market shake-up is leading to smaller and less efficient producers being condemned to subsistence farming and that more workers are being forced to abandon the land and end up swelling Brazil's shanty towns.

"Only the highly efficient producers will survive," declares Mr José Carlos Duarte da Conceição, president of the Coplan co-operative in Campinas, 60 miles from São Paulo.

The co-operative, which represents 536 coffee and cotton producers and has annual gross sales of $18m, encourages the use of fertilisers, high-yielding seeds and automation to increase its members' productivity. Coffee yields are 30 bags (60kg each) a hectare, compared with a national average of eight bags, says Mr Conceição.

The transformation during the past decade is striking, he says, recalling his arrival at the co-operative 10 years ago when government subsidies were still flowing: "It was ridiculously corrupt. People were taking the money and spending it on anything except farming. Today, the industry has become much more professional."

This growing professionalism largely began in the 1980s with the phasing out of government subsidies.

It was followed by a general reduction of other government support to farmers – sparked by Brazil's financial crisis – which included cuts in agricultural loans and purchases of excess stocks.

Brazil is still the world's biggest coffee exporter

One of the most outstanding examples of improved productivity concerns soya. While the planted area of soya in the past decade has increased only slightly, to about 10m hectares, production has soared from 15m to 23m tonnes, reports Conab, a government agricultural agency.

The productivity gains, according to Professor Guilherme Leite, an agricultural economist, were made possible by government investment in the 1970s in new seeds and agricultural technology tailored to a semi-tropical climate, and by the opening up of the vast terrains of the central and western states such as Mato Grosso.

Today, Brazil is the world's second-largest soya exporter after the US and the leading exporter of orange juice, another crop that was hardly cultivated 25 years ago. This crop evolution continues a historic pattern. The Portuguese colonisers planted sugar cane in the north-east, which was later supplanted by coffee in the state of São Paulo. Soya has now become by far the most important crop in Brazil.

Soya earns Brazil more than $3bn a year and accounts for some 40 per cent of agricultural exports, with coffee and orange juice earning about $1bn each. While Brazil is still the world's biggest coffee exporter, its importance, however, has declined significantly since the early 1950s when it represented the vast majority of agricultural exports. Last year, coffee accounted for just 16 per cent.

Similarly, because of Brazil's industrialisation, agriculture has declined dramatically in its importance to the economy, shrinking from about half of gross domestic product 40 years ago to 13 per cent today, according to Mr Leite.

But today's agricultural sector is often highly competitive thanks to low production costs, says Mr André Pessôa of consultants MB Associados. He highlights the growth in exports of processed chickens, which benefit from low costs for land, labour and feed.

"Californian chickens receive large subsidies and we get none and yet we are still competitive in world markets," says Mr Pessôa.

But some other products are less competitive. With the lowering of tariffs, Brazil has become an importer of crops such as wheat. Economists say this is because wheat is highly subsidised by the US and European Union and also because countries such as Argentina have better soils for wheat production.

Mr Pedro de Camargo, president of the Brazilian Rural Society, a producers' association, complains that while Brazil has lowered or eliminated import tariffs and subsidies, the rest of the world has not. "We are being taken for a ride and we don't have the political clout to insist on changes by the US and Europe," he says, claiming that the Uruguay round of the General Agreement on Tariffs and Trade talks will not benefit Brazilian agriculture.

The losers under Brazil's move to a more professional system are those producers left behind by the technological advances, which includes large parts of the poor north-east of Brazil as well as sugar cane workers in the state of São Paulo. This process has sparked a strong migration of rural workers to the shanty towns in the past decade.

Mr Luís Inácio, presidential candidate of the left-wing Workers Party, intends to institute a thorough agricultural reform and find land for up to three million landless families. But any changes will first have to overcome the powerful landowners' lobby in Congress.

KEY FACTS

Area	8,511,966 sq km
Population	156.3 million
Head of State	Itamar Augusto Cautiero Franco
Currency	Cruzeiro, Real and URV accounting unit
Average exchange rate	1992 $1=4.513
	1993 $1=88.449

ECONOMY

	1992	1993
Total GDP ($bn)¹	411.5	432.0
GDP per capita growth (%)¹	-2.7	3.0
Components of GDP (%)		
Private consumption	62.4	n.a.
Total investment	19.1	n.a.
Government consumption	15.2	n.a.
Exports	9.6	n.a.
Imports	-6.3	n.a.
Annual average % growth in		
Consumer prices (%)	1,129	2,491
Unemployment rate (%)	15.8	14.9
Stock market		
Stock market cap. ($bn)²	45.3	99.4
No. of listed companies²	565	550
Share price index growth (%)²	0.4	108.3
Bond market		
IDU Brady bond yield (%)	20.8	10.6
Total return on bonds (%)	0.9	58.8
Eurobond debt issuance ($bn)	4.6	6.2
Reserves minus gold ($bn)	22.2	30.6
Total external debt ($bn)	121.1	n.a.
Debt service ratio (%)	24.4	n.a.
Trade		
Exports ($bn)	35.9	38.8
Imports ($bn)	20.6	25.7
Trade balance ($bn)	15.3	13.1
Main trading partners (%)³	Exports	Imports
USA	19.7	25.1
Japan	6.4	5.6
Germany	5.7	9.0
EC	29.6	22.4
Latin America & Caribbean	22.6	17.3

(1) 1993 figures are estimates. (2) São Paulo Bolsa De Valores.
(2) IFC index, dollar terms, % increase over previous year end.
(3) Percentage shares of trade in 1992.
Sources: IMF, IFC, EIU, Salomon Brothers.

BRAZIL VI

THREE STATES TACKLE ECONOMIC AND SOCIAL PROBLEMS WITH A VARIETY OF APPROACHES

Biggest consumer market

São Paulo state accounts for more than 40 per cent of Brazil's industrial production, writes Patrick McCurry

The state of São Paulo is Brazil's economic giant and the biggest consumer market in South America. With less than a quarter of Brazil's population it accounts for more than 40 per cent of industrial production and 37 per cent of gross domestic product.

Paulistas, as its inhabitants are called, put that success down to one main factor: hard work. The more arrogant look down on what they regard as the decadent and workshy Rio de Janeiro as well as the under-developed and poverty-stricken north-east of Brazil.

São Paulo's wealth was built on the 19th century coffee boom and the influx of immigrants from Europe, Japan and the Middle East. That was followed by a wave of immigration by job-hungry Brazilians from the north-east, who have helped swell the state's population to 35m. The city, at 17m, is the biggest in South America.

In the 1950s, the economy's axis moved from agriculture to industry, with the arrival of car production, chemicals and other manufacturing to take advantage of the state's large population and enterprising workforce. The economy is today highly diversified, ranging from the manufacture of satellites to food processing.

São Paulo's growing economic supremacy mirrored the decline in importance of Rio de Janeiro, which was partly caused by Rio's loss of the capital to Brasilia in 1960. "São Paulo is the centre of gravity for Brazilian capitalism," says Mr Pedro Paulo Branco, head of Seade, the state's research institute.

But Mr Luiz Antonio Fleury Filho, the state governor, complains that part of São Paulo's wealth subsidises the federal government.

"We contribute 52 per cent of federal taxes while only getting 2 per cent back," he says. Analysts put São Paulo's continued industrial success down to a good road and energy infrastructure, impressive universities and research groups and a strong business culture, founded on the dynamism of its immigrants.

But there are problems. São Paulo's share of Brazil's GDP has fallen from 41 per cent in 1980 to 37 per cent in 1992, according to Seade, and there have been doubts about whether the state can continue its role as the engine driving the national economy.

Part of the reduction in São Paulo's importance has been caused by neighbouring states such as Minas Gerais offering tax and land incentives to attract companies tired of São Paulo's over-saturated infrastructure and higher costs.

However, Mr Branco says these companies are often in the agro-industrial or intermediate goods sectors and that capital-intensive and high-tech companies are still choosing São Paulo.

Some business people say militant unions, particularly in the car industry, have contributed to companies moving out. Mr José Lopez Feijóo, president of the CUT union confederation in São Paulo, says the number of companies leaving the state because of strong unions is "very small" and that for most companies the benefits of being close to São Paulo's huge consumer market are overwhelming.

This point is echoed by Mr Robert Rennard, chief operating officer of Autolatina, the holding company for the combined operations of Ford and Volkswagen in Brazil. Mr Rennard adds that he expects higher labour costs in São Paulo to be offset by a reduction in regional wage differences in the car industry and that relations with the unions "are maturing."

Palacio dos Bandeirantes: São Paulo state government headquarters

Large sectors of São Paulo's economy are not unionised, however, and unemployment stands at 15 per cent; about 1.2m workers. Some analysts believe that the state's social problems, particularly unemployment, will not be relieved significantly by economic growth because of a move towards more specialisation in industry.

Outside the industrial sector, the city of São Paulo has consolidated its hegemony over Rio de Janeiro in financial services. The São Paulo stock exchange accounts for about 85 per cent of Brazilian share trading. The city's futures and commodities exchange had trading volume of more than $500bn in 1993.

Since the 1970s, when São Paulo's stock market expanded after carefully targeting the growing new capital issues, there has been a trek of financial executives from Rio de Janeiro to São Paulo. Mr Ronaldo Nogueira, a director of the Brazil Fund investment trust who lives in Rio de Janeiro, says: "Not being in São Paulo requires a certain effort and I find myself travelling there at least once a week on average." The future for São Paulo clearly depends on the national perspective. If the Brazilian economy can be stabilised then São Paulo could become an even more important hub, analysts believe. They see the state as the anchor of a large industrial and trading region, helped by by the Mercosul trading bloc.

The axis linking São Paulo with Buenos Aires, South America's two biggest markets, is regarded as a key part of this development. "Other Brazilian states and countries like Paraguay and Bolivia will act as satellites, linking their growth to that of São Paulo," Mr Branco says.

Quiet revolution under way

Minas Gerais has become the most active state in global financial markets, says Patrick McCurry

In its own quiet way, the state of Minas Gerais is undergoing a revolution.

As well as being set to challenge Rio de Janeiro as Brazil's second biggest economy, it has become the most active state in global financial markets following a pioneering Eurobond issue earlier this year.

Development officials portray the state, which is larger than France in area, as a haven for businesses from the overcrowding, high costs and strong union organisation of neighbouring São Paulo.

In the 16th century it was gold that attracted settlers to the state. Gold mining was largely replaced by iron ore but the colonial towns built by the settlers, such as Ouro Preto and Tiradentes, remain, and have become an important tourist attraction.

State officials boast that Minas' share of national gross domestic product increased by three percentage points to 11.4 per cent between 1970 and 1990, while Brazil's other three largest economies – those of São Paulo, Rio de Janeiro and Rio Grande do Sul – saw their shares shrink. During the 1980s, Minas exports increased by an average 10 per cent a year.

This growth was sparked in the 1970s by the arrival of big industrial companies such as Fiat and by a strategy to attract manufacturing and high technology companies, many from overcrowded São Paulo, by offering fiscal incentives and lower costs.

The policy has been promoted by the state's development bank, BDMG, and its Industrial Development Institute. In the 1990s, the state has targeted companies in sectors such as vehicle parts, electronics and agribusiness. Nevertheless, iron ore still makes up about a quarter of Minas's $5bn in exports.

With a GDP of about $43bn, the state is home to a large chunk of Brazil's newly-privatised, and profitable, steel industry as well as mining, aluminium and car production. Industrial giants with operations in Minas include the steel company Usiminas, the government-controlled mining company Companhia Vale do Rio Doce and Alcoa, the world's largest aluminium producer.

The economy has been helped by finance from the World Bank and Inter-American Development Bank for infrastructure projects.

The state government has also been active in international financial markets. In February it raised $200m through a Eurobond issue that offered options to buy stock in its electricity company Cemig.

Despite the complexity of the operation and the fact that no other state had attempted a bond with equity warrant issue, the offer was successful and has opened the door to similar operations in the future, say state officials.

They add that the state's conservative financial management has led to a balanced budget for the past three years.

However, Minas Gerais also suffers from serious social problems, including shanty towns and an estimated 2m people or more living in poverty. Problems are particularly acute in the north of the state in areas such as Jequitinhonha.

Mr Marcus Flora, general secretary in Minas for the left-wing Workers Party (PT), criticises the state government's policies. He says that investment has been over-concentrated in large civil construction schemes to benefit contractors and other political allies of the state government.

"Education, health and public sanitation have suffered and while the state produces 20m tonnes of cereals a year, 2m people are going hungry," says Mr Flora.

The state government and its agencies deny that social problems have been ignored. Officials point to schemes such as the Jaiba irrigation project for fruit farmers in the poor north of the state, and education projects such as the Curumim programme for children from low income backgrounds.

Austerity and common sense

Ceará is becoming the envy of reformists and winning plaudits from international agencies, reports Angus Foster

Brazil's backward and usually corrupt north-east is an unlikely place to encounter balanced budgets and good government. But thanks to both these factors and a bit of luck, the state of Ceará is becoming the envy of reformists in the region and winning plaudits from international agencies.

Ceará's fortunes started to turn with the 1987 election as governor of a young businessman, Mr Tasso Jereissati, who decided to confront the cosy system of patron-and-client politics responsible for much of the north-east's poverty and problems.

His main achievement was to balance the state's previously anarchic budget with a mixture of austerity and common sense. About 40,000 public employees, political appointments under previous regimes, were sacked. Tax collection was tightened and corruption attacked. These ideas, fundamental to most governments, are still controversial in much of Brazil and Mr Jereissati was ostracised by much of the state's elite.

With the budget balanced, and corruption under wraps, businessmen started to invest and the economy began to prosper. Growth in gross domestic product has outstripped Brazil's by a factor of five. Per capita income rose 30 per cent to a still very low $1,300 while in the rest of the country it remained stagnant.

Mr Jereissati, who had joined the centrist Brazilian Social Democrats (PSDB) of Mr Fernando Henrique Cardoso, the former finance minister, was followed as governor by his chosen successor Mr Ciro Gomes, who took over in 1991.

Both men sought to attract Brazilian and foreign investment. Textiles company Grupo Vicunha is building two new factories in the state at a cost of $450m. These could create 5,000 new jobs by 1997.

Other companies, such as shoemaker Grendene and plastics company Petropar are also investing smaller amounts. A consortium of Taiwanese businessmen is investing as much as $32m in various light industry ventures in the interior of the state, attracted by low labour costs and government incentives.

Ceará is a long way from being a paradise and still faces huge problems, including areas of extreme poverty, rapid urbanisation and an overlooked rural sector. Illiteracy remains stubbornly close to 40 per cent of the population above 14 years old. Infant mortality has been cut dramatically by an internationally praised health scheme, but in rural areas it remains unacceptably high.

Even critics welcome the cleaning out of public accounts and say the government's new credibility has brought investment from business and multilateral agencies such as the World Bank, pleased to see money reaching desired targets rather then syphoned off to corrupt politicians.

But there is concern about who has gained from eight years of PSDB rule. Ms Maria Cleide Bernal, a local union leader, says there has been a lack of investment and good policies in areas such as agriculture and the urban shanty towns, the *favelas*. "The benefits haven't gone to the majority of the people, but to the elites," she says. Other critics say both governors have made expert use of public relations to take credit for schemes which communities have started themselves.

Dr Adalberto Barreto, a psychiatrist who works in the giant shanty town of Pirambú, says most health and welfare services are still provided by residents. "The government is capitalising on this. It is the communities who are making the changes," he says.

Mr Jereissati, who is likely to stand for governor again in this year's elections, admits that much remains to be done, and that achievements so far are building the base for future reforms. "We need to jump forward, especially with social development. We need to start integrating the poor into society," he says.

INTERNATIONAL CAPITAL MARKETS

Thursday May 26 1994

Mood is sombre as bears spoil the fun

In February, the bull run ended when the US Federal Reserve raised interest rates. Tracy Corrigan discusses the painful change of fortunes for traders and investors

When bankers and traders gather for the annual meeting of the International Securities Market Association (ISMA) in New Orleans on June 1, their mood is likely to be somewhat less festive than it was a year ago.

The contrast between 1993 and 1994 in the international capital markets could hardly be starker. Last year, declining interest rates led to an unprecedented bull run in the world's government bond markets, which encouraged record issuance of $400bn in the eurobond market. The strong upward trend encouraged a surge of investment by mainstream fund managers, financial institutions and hedge funds.

In February, the bull run rapidly turned into a bear market, when the US Federal Reserve raised interest rates for the first time in five years. The market's reversal was particularly painful, because most traders and investors held long positions in bonds, expecting the rally to continue. The reversal of fortune of the US bond market and the spillover into European markets were exacerbated because many traders and investors held positions through the futures markets, and were forced to liquidate positions as prices fell, to cover margin calls on their positions.

"What we saw in 1992 and 1993 was a trending market," said Manfred Schepers, an executive director of Swiss Bank Corporation in London. "Globally, many investors were taking large positions in terms of credit and interest rate risk, which led to a dramatic expansion of emerging markets and of bond markets generally."

At the peak of the market, two emerging market borrowers, China and Argentina, were able to issue large global bond offerings. "People lost touch with the fact that emerging markets are a credit game and that the market liquidity is not always reliable," said Mr Schepers.

As a result, when the Fed's rise came, the emerging markets were hit particularly hard. New issues of both bonds and equities from these regions have suffered as a result.

The greater appetite for risk was also shown by investors' willingness to buy very long-dated bonds. For example, Germany issued 30-year government bonds for the first time last year. Although the amount of funding through fixed income bonds has dropped off this year, this has been partially balanced by the increase in issuance of floating-rate notes. Dealers also report record volume in the Euro commercial paper market, and there are early signs of a revival in bank lending.

Since there is little sign that debt requirements are falling, it is likely that funding will simply shift away from the mainstream fixed income eurobond market, where the flow of new issues has suffered as a result of weakness and volatility in government bond prices.

In this survey

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"The US bond market has had a predominant effect on attitude well beyond the fundamentals," said Ludovico del Balzo, a managing director of Lehman Brothers. "There is no reason why the long end of the European bond market should be as weak as it has been, except for sentiment."

Nevertheless, the fact is that for most of the year so far, the markets have defied analysts' insistence on market fundamentals. Many bond investors who held on to inventory during the first wave of selling were forced to liquidate on the second or third wave instead.

The impact on stock market investment has been somewhat less pronounced. Mr del Balzo notes that while US mutuals investing in bonds have seen a high level of redemptions this year, there has been little shrinkage of equity funds.

The volume of new issues in the international equities market remains firm, although there is now a greater sensitivity to pricing, particularly of emerging market transactions. But volume in this market is being buoyed by the heavy slate of privatisation issues, especially in Europe.

However, the huge volume of funding in the bond market last year cannot be switched to the smaller international equities market.

The net result of the turnaround in the market is bound to be lower profits for the financial institutions which dominate the international capital markets. First of all, their trading income, a one-way bet for almost all of last year, is bound to suffer. On the fee-earning side, while some of the fixed income eurobond business has been replaced by floating-rate notes and commercial paper issuance, the commissions earned are substantially lower, owing to the lower level of underwriting risk.

To some extent, the market is better positioned to cope with the cyclical turnaround than it has been in the past. The last shake-out of the eurobond market, in the late 1980s, came when competition had become so cut-throat that profitability even for market leaders was being eradicated. A number of casualties pulled out or cut back, but the market did manage to impose some discipline. The introduction of the fixed price re-offer system for pricing deals, while not an unqualified success, has at least managed to rid the market of some of the worst excesses.

Market participants can also comfort themselves with the knowledge that most of their institutions enjoyed record trading profits last year, have reasonably strong capital bases, and so should be able to weather a few storms.

But the relentless institutionalisation of the market has also made it more difficult to squeeze extra profits out of clients. Institutional investors themselves have become much more sophisticated, and are demanding – and getting – a more competitive service from trading houses.

One symptom of this is the top item on the agenda at the ISMA meeting in New Orleans – a shift in market practice from seven-day to three-day settlement of bonds. A proposal will go to the ISMA board in New Orleans, asking for a change in rules effective June 1, 1994. The reduction to three business days will apply to all ISMA members. While it is not likely to suit retail investors, some of whom like to hold eurobonds because of their bearer form, their interests are being sacrificed because they now make up only a small portion of the market.

"The main benefit will be the reduction in systemic risk, because the period of counterparty risk will go down from seven to three days," said John Langton, ISMA's chief executive.

Mr Langton said the change is needed as a result of the huge growth in secondary market volume: four years ago, the total annual turnover in Cedel and Euroclear, Europe's two international clearing houses, was $6,500bn; it is now $30,000bn. "What was acceptable five or six years ago is no longer. You are now looking at a different magnitude of business," as well as substantial changes in market practice, such as the growth of the repo market, he added.

While trading conditions have been disappointing so far this year, one area of the market has continued to furnish lucrative business. Activity in the derivatives market has if anything accelerated, particularly in the first quarter of the year, when many traders and investors were active in the futures markets as they tried to hedge risk and offload positions.

Although margins in the futures broking business are extremely thin, heavy volume has made the business attractive for larger market participants. Meanwhile, the over-the-counter market, where more exotic options and swaps are designed to suit individual clients' needs, has become more competitive, due to the advent of new participants. However, the highly specialised nature of the business means that banks still find the OTC market a lucrative area.

The continued growth of the derivative markets, despite some bad publicity from heavy corporate losses, is widely expected to continue throughout 1994. However, even a partial recovery in bond prices at this point in the year is highly unlikely to allow new issue volume to recover to last year's level. A shift of emphasis towards international equities, floating-rate notes and possibly bank lending is likely to help fill demand from borrowers.

Eurobonds: down to earth with a bump

Search for yield over

Nothing could have prepared eurobond syndicate managers for the rapid deterioration in market conditions in 1994. Riding high after a record year of new issue volume and happily thinking about how to spend their hefty profit-related bonuses, the sudden collapse in bond markets around the world in February had the same effect on them as a bucket of ice-cold water on sun-warmed skin.

"It is no longer a bull market for new issues," says Simon Meadows, joint head of syndicate at CS First Boston. He notes that the opportunities which were available last year in so many currencies and structures are no longer there, mainly because evidence that US interest rates are rising again has wiped out the need among investors to take risks to enhance their returns. "The search for yield is over, that extra pick-up is not needed any more," says Mr Meadows.

After soaring 45 per cent to $400bn last year, new issue volume from the start of 1994 to May 15 stood at $164bn, down from $171bn in the same period last year, according to IFR Securities Data. At the same time, the proportion of fixed-rate issuance has declined in favour of floating-rate note (FRN) issuance, reflecting the shift in investor demand to make the most of any rise in rates.

From January 1 to May 15 this year, borrowers launched the equivalent of $43bn in FRNs, corresponding to 26 per cent of total new issues (and mainly denominated in US dollars), compared with a total of $24bn in the year-ago period (or 14 per cent of total new issues).

Emerging market borrowers which tapped the eurobond market with such success last year have also suffered as a result of the more defensive stance being adopted by investors. Yield spreads on their paper have widened substantially in the secondary market, eroding the progress which they made last year with respect to pricing. Syndicate managers say while the market is still open to them, they will have to pay what investors want to raise funds.

John McNiven, managing director at Merrill Lynch in London, says that the new issues market is still available to a whole range of issuers but that the process has become more focused. "You have to manage the new issue process more pro-actively," he says. "Underwriters have to differentiate between the credits to get secondary market support."

Whereas last year the bull market conditions made it possible for syndicate managers to stick their necks out on pricing to win a mandate, this year they are under pressure to get their pricing right or risk being left with the entire deal on their books.

The sudden collapse in bond markets had the effect on syndicate managers of a bucket of ice-cold water on sun-warmed skin

The market volatility and a reluctance among banks to tie up their capital to support other people's deals has unmasked one of the less gentlemanly practices in the eurobond market when members of a syndicate sell their allocation of the new issue back to the lead manager rather then keep it on their books in the hope of selling it on to investors.

Recent instances of "bond-dumping" have prompted a debate in the eurobond market about the viability of the fixed-price re-offer mechanism which was devised in 1989 by Morgan Stanley to instal some discipline among underwriters during the offering process.

CS First Boston recently called for a revision of eurobond new issue practice to stamp out bond-dumping. It proposed a modified fixed price re-offer mechanism whereby the lead manager would be able to retain control of its issue by inviting the underwriting group to request paper according to end-investor demand, but not guaranteeing to allot these firms any bonds. By only allocating bonds to underwriters whose demands are credible, the lead manager could limit the flowback of bonds and downward pressure on prices.

However, other leading eurobond houses have stood by the existing re-offer system. In a letter to the International Financing Review, which has been the forum for the debate, Robert Gray, chairman of the market practices committee of the International Primary Market Association, notes that since its introduction the re-offer system has been used to raise the equivalent of more than $800bn in 15 different currencies in more than 3,300 issues, approximately two-thirds of total eurobond issuance during this period.

On the topic of bond-dumping, he adds: "Responsible lead managers should factor that possibility into their pricing and syndication strategy for any transaction."

Syndicate managers expect a slight improvement in trading conditions this year but they say that the main task will be to encourage investors back into the market. One positive development is that investors are now more comfortable with medium-term note (MTN) programmes which enable issuers to achieve cost-effective financing through relatively small transactions.

Paul Abberley, head of fixed-income investment at the London arm of Lombard Odier, the privately-owned Swiss investment management company, says that the growing liquidity in the MTN market is helping to blur the distinctions with the eurobond market.

"In some ways MTNs are more attractive than eurobonds because MTNs are structured to suit you while a eurobond has a fixed maturity," says Mr Abberley. He adds that when it comes to the secondary market, MTNs are sometimes easier to sell than euro-

Continued on page 2

Patrick Harverson looks at the US corporate and junk bond markets

Rates rise takes its toll

In April, there was a sharp drop in issuance by US companies

Three years after steep declines in interest rates sparked a prolonged boom in debt issuance by US companies, the recent turnaround in interest rates has begun to take its toll on the corporate bond market.

The latest figures from Securities Data, the New Jersey-based financial information firm, show that in April, US companies issued $10.5bn of debt (both investment grade and junk). That was almost half the $20.8bn they issued in April 1993, and well below the average $34bn issued over the first quarter of the year. It was also the lowest monthly total since January 1991. Yet, no one on Wall Street was particularly surprised by the sharp drop in issuance during April.

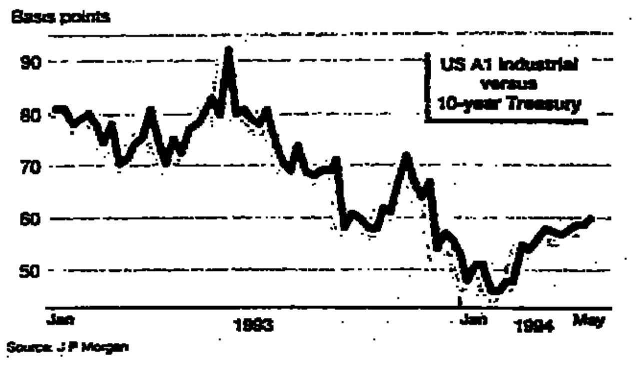
Between early February and mid-April, the Federal Reserve tightened monetary policy three times, in the process pushing up short-term interest rates three quarters of a percentage point to 3.75 per cent. The rate increases – which the Fed hoped would prevent the rapidly-growing economy feeding a revival of inflation – sparked heavy selling of government bonds. Investors were selling bonds because they feared that, in spite of the Fed's actions, inflation would rear its ugly head again and undermine the value of their fixed-income assets.

The end result was a sharp rise in bond market yields, and – after a brief lag – a slowdown in corporate bond issuance. Having feasted for three years on cheap credit, companies quickly became wary of selling their bonds in a less favourable interest rate environment. Similarly, investors were wary about buying corporate paper if interest rates were going to keep on rising.

Although the April data confirmed that the new issues market was weakening, the first signs of a reversal were evident in the opening quarter of the year, when companies sold $72.1bn of new debt, down from $97.9bn in the same period of 1993. While the totals were still impressive by historical standards, investment bankers noted a deterioration in market sentiment in the latter half of the three-month period, and on into April.

Mr James Forese, the head of the fixed-income syndicate desk at Salomon Brothers in New York described market conditions during April and early May as extremely volatile. "Sentiment has been very fickle. One day markets are rallying, and people feel good about long rates. The next day, markets are selling off, and people are pessimistic on rates."

The deterioration in market conditions manifested itself in a widening of spreads, and a drop in demand from investors, which quickly scared many issuers away. Investment bankers say that whereas they could offer issuers tight spreads over 6 per cent Treasury rates last year, by the end of the first quarter they were talking about significantly wider spreads over 7 per cent Treasuries. It was the kind of talk that issuers did not want to hear.



Once the market began to decline, demand quickly shrank, although interest in high quality paper held up reasonably well. "Investors have been going to higher quality, but for the most part they are going to the sidelines," said Mr Forese. "They are not buying much of anything, and are keeping their money in short-term and other defensive instruments." The one product that was in demand was floating-rate debt, which always appeals to investors looking to protect the value of their capital in a market where interest rates are rising.

As for junk bonds, they have generally fared better than their investment grade counterparts during the recent turmoil afflicting fixed-income markets. This is partly because the accelerating pace of economic activity is good for junk bonds because it reduces the risk that low-rated issuers will default. In times of economic growth, junk bonds traditionally do well.

Also, the phenomenon that has sustained the junk bond market for the past few years – low interest rates chasing yield-hungry investors into higher interest-bearing assets such as junk bonds – did not begin to be seriously undermined by the rise in interest rates until relatively recently, primarily because rates remained low by historical standards. Thus, until April, the motivation to invest in junk was still quite strong. With sufficient demand from investors to mop up the new supply, junk bond issuance in the first quarter was 4 per cent higher than the year before at $14.7bn.

After March, however, there was a noticeable fall off in demand, so much so that in April, only $2.2bn of junk bonds were issued in the US, down from $3.6bn in the same month a year ago and well below the average monthly volume of $4.9bn recorded during the first quarter.

Issuance dropped sharply after March because investors became more choosy about which paper to buy, and began searching for ever-higher yields as interest rates on government and investment grade bonds climbed. As one junk bond analyst at a large US bank explained: "It's become a buyer's market. With new issues, prices had to be increased by 100 basis points, 150 basis points, sometimes even more, to induce the buyers to come in." It was not long before companies started refusing to pay the yields investors were asking.

Companies were also reluctant to come to the market because junk bond mutual funds – traditionally a large source of demand for low-rated issuers – were confronted with suddenly high rates of redemptions as investors chose to move their money elsewhere while the storm in the bond markets was raging.

For both the investment grade and junk bond markets, the outlook for the rest of the year depends greatly on what happens to US interest rates. As of early May, the Fed had raised rates three times, and most analysts were predicting that there was more to come, especially with the weakening dollar requiring support.

Yet, what the corporate bond market needs above all now is some certainty about the outlook for interest rates. Investors need to be confident about where rates will be in the next three, six and 12 months, before they can start making reasoned judgments about where to put their money.

Search for yield over

Continued from page 4

bonds because issuers are often willing to buy back their paper. By contrast it is rare to find an issuer of eurobonds who will buy them back.

Bim Hundal, head of the MTN desk at Goldman Sachs, says that while issuers often use the programme's master documentation to streamline eurobond execution, the main use is for structured (derivative-linked) products sold directly to investors.

Several leading names in the eurobond market have set up MTN programmes in the past year, most notably the World Bank whose programme is designed to increase secondary market liquidity and enhance price transparency. A more recent recruit is British Columbia in Canada which signed a $2bn Euro medium-term note programme (EMTN) in early May as part of an ongoing process of diversifying its borrowing sources and broadening its investor base.

Antonia Sharpe

Emiko Terazono on how Japan's corporate bond market is being undermined

Patience is running out

The Japanese way of doing things gradually, in an orderly manner with a long-term perspective, has long been considered by outsiders to be the reason for its success in becoming an industrialised power.

However, in the world of finance, this rule does not apply. The piecemeal reforms under way in Japan's financial markets today, are undermining Tokyo's chance of becoming a truly international financial market.

The country's financial markets have been tightly regulated by the powerful ministry of finance, and closed to outside influences until the 1980s. However, the stock market boom of the late 1980s and the rise in the financial power of Japanese financial institutions led to calls for deregulation both from home and abroad.

However, financial authorities, who feared losing their power over the industry, financial markets and capital flows, have been reluctant to implement fully-fledged reform, claiming that it would bring "confusion" to the markets and investors.

Such dragging of feet, say market participants, will lead to a decline in Japan's position as an international capital market, even though it may be among the world's largest. "Japan's capital and foreign exchange market is facing a severe case of hollowing out," says Mr Mikio Fujii at Nomura Securities' bond division. He says issuers and investors are shifting their activities to less regulated offshore markets such as Hong Kong.

Restrictions on the types of investment products which can be issued, difficulty in bringing market prices into fund-raising activity, the lack of a proper secondary bond market, the lack of hedging tools for straight bond trading are frustrating foreign investment houses which hoped for a lucrative market following deregulation.

Officials at foreign securities houses now also warn that their patience will not last forever.

"If things haven't changed by April next year, we will have to reconsider our Tokyo operations," says a leading US investment house.

Since the mid-1980s, the ministry of finance has been promising deregulated financial markets. So far, on the corporate bond market, they have managed to lift various regulations and bring in the mechanism for the primary market.

Over the past year, the limit on the maximum amount of new issues has been lifted, and the market has been opened to a wider range of issuers, with the minimum credit rating for issuing foreign and domestic yen bonds by Japanese companies lowered from single A to triple B.

Restrictions on floating rate notes has been lifted, while companies issued domestic dual currency bonds for the first time in March.

The entrance of banks' subsidiaries into the securities business, the initial step for the ministry's partial easing of the barrier between the securities and banking industries, has also helped bring in competitive pricing and increase the number of companies issuing corporate bonds.

Ten trust banks and long-term credit banks were allowed last April to establish securities subsidiaries, and city banks, or the large commercial banks, will follow suit this summer.

However, products such as junk bonds and index-linked bonds are still barred, and the ministry of finance is hesitant about innovative instruments tailored for the issuers' needs – an area in which foreign investment houses excel.

Asset securitisation, which many foreign securities companies are eager to promote, has also failed to take off domestically due to the ambiguous status of asset-backed securities as an investment instrument, and various procedural barriers.

And although the corporate bond primary market has grown to Y2,900bn, a secondary market remains virtually non-existent due to an archaic bond registration law, and the lack of an efficient clearing system.


There is a risk of Tokyo becoming a marginal domestic market Picture: Glyn Genin

Because the Japanese legislative system treats bonds in the way in which they were treated before the second world war when such instruments were considered unmovable assets, investors are required to register their bonds with designated banks.

Such procedures can sometimes take up to a month, hampering smooth trading. A centralised clearing system similar to Euroclear would solve such problems, boosting secondary trading. This would require a change in legislation but strong opposition from banks, which receive a registration fee, and the cost of setting up such a system are obvious barriers.

However, foreign investment house officials say such fundamental problems need to be solved if Japan is to become an international financial centre.

Along with such structural problems, large Japanese institutional investors still remain reluctant to diversify investments and balance risks with returns. Here again, much of this is due to rigid investment guidelines set by the ministry of finance.

But brokers say the mentality of the Japanese fund manager, who is not evaluated on the basis of his investment returns, has been partly responsible for the slow pace of the country's financial revolution.

Since performance does not affect the salaries or the amount returned to the beneficiary, investors tend to be satisfied with low risk, low return products and do not feel the need to trade bonds or to buy asset-backed securities.

Mr Fujii at Nomura likens the Japanese capital market to someone with the "moratorium syndrome" – common among Japanese university students, who refuse to go out into the real world after graduation. "It's like a spoiled child, who suddenly realises he's become an adult physically, but doesn't really want to grow up," he says.

The uncertain political outlook will affect emerging markets, says **Conner Middelmann**

Issuance slows to a trickle

After surging to record levels last year, the issuance of international bonds by emerging market borrowers has become a trickle in recent months.

This follows the sell-off in global bond markets, triggered by the US Federal Reserve's decision in early February to tighten US interest rates. Since then, most bond markets have shed a large portion of last year's gains, with the emerging markets falling most steeply.

As long as US interest rate uncertainty persists, emerging bond markets will be caught in the thrall of the US Treasury market, where yields have risen sharply in recent months in volatile trading. Moreover, the uncertain political outlook ahead of Mexico's and Brazil's elections later this year will also make investors reluctant to increase their emerging-market holdings.

However, once US rates are perceived to have peaked and the political picture clears, investors are expected to venture back along the yield curve into longer-dated, fixed-rate assets. Until then, they are likely to stick to less volatile short-term or floating-rate instruments which offer a sizeable yield pick-up over most OECD markets at relatively low risk.

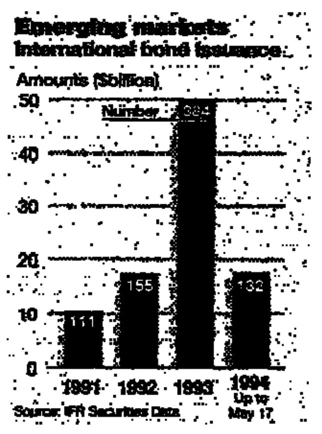
Moreover, some sectors of the secondary eurobond market are now so cheap that they have begun to attract cautious buying, traders say. "No one regards this market as fundamentally overvalued," says Mr Paul Luke, economist at Morgan Grenfell, adding that the market offers significant capital-gains potential.

Latin American borrowers – sovereign and corporate – had a spectacular run in the international bond markets in the past two years. After issuing 99 deals totalling some $9.7bn in 1992, they raised a total of $24bn in 206 new issues last year, data compiled by IFR Securities Data show. Total emerging market issuance, including Asia and eastern Europe, nearly tripled from $17.4bn in 1992 to 50.1bn in 1993.

In the first four months of this year, issuance fell to 44 deals worth $6.6bn in Latin America and to $16.6bn overall, according to IFR.

During the boom, the yield premiums issuers paid over underlying government bonds were rapidly eroded by strong investor demand. This allowed borrowers to raise money at increasingly advantageous levels – and well below the interest rates they would have had to pay in their domestic markets, where inflation pressures were keeping rates high.

However, the market correction has sent emerging market eurobonds' yield spreads ballooning back out. For example, Mexico's Banco Nacional de Comercio Exterior (Bancomext) in January issued $1bn of 7¼ per cent 10-year global bonds yielding 163 basis points above the US Treasury note; the spread widened to about 385 basis points, but narrowed to around 280 by mid-May.



During the bull run, many private sector borrowers joined sovereign and public-sector names; some issuers, including the Republic of Argentina and Mexico's Cemex, launched large global bond deals providing investors with more liquid paper; and borrowers lengthened the maturities and broadened the currency range of their bonds to appeal to a wider investor base.

Many of these trends have been reversed in recent months: the bulk of issuance has been in US dollars; private sector borrowers have largely ceded the stage to the handful of public-sector entities still brave enough to tap the market; some of the liquid, global issues have taken a particularly heavy pounding; and maturities have shortened significantly, with most business now taking place at the very short end of the yield curve.

"A lot of the action has been in the money market," says Miles Protter, in charge of emerging markets origination at Swiss Bank Corporation in London. Institutional investors seeking a lucrative home for their cash have been piling into corporate commercial paper and certificates of deposit which Mexican, Brazilian and Argentine banks have been issuing heavily in recent months, he says. They offer returns well above investors' own domestic money markets while minimising the volatility of longer-dated paper.

Some of the Mexican government agencies, such as Bancomext and Nafinsa, have been particularly active issuers of Euro commercial paper and medium-term notes ranging between six months and three years, traders say. One dealer estimates they have issued well over $1bn of such paper since the beginning of the year, including public floating-rate note issues and privately placed deals.

It is no surprise that in an environment of rising interest rates, a growing proportion of new issues consists of floating rate notes. Of this year's Latin eurobond issues, 23.4 per cent have been FRNs, far greater than the 6.6 per cent of issues represented by floaters in 1993 and 3.5 per cent in 1992, notes Peter West, economic adviser at West Merchant Bank.

"The trend towards FRNs is likely to intensify, in the light of their attractiveness to investors in a rising interest-rate environment," he predicts, while adding that issuers reluctant to face the risk of a floating rate structure may instead prefer to pay the premium to swap then into a fixed rate.

Meanwhile, some say investors' cautious return to the secondary market may herald a pick-up in new issuance. "Some bottom fishers are coming back to the market and are buying away the cheap, good-quality assets. This is a positive sign, as it creates an environment where new issues could be welcomed," says Vincent Keith, head of emerging market syndicate at Bankers Trust in London.

His is one of several underwriting houses poised to lead an issue from an emerging market borrower; traders say Bankers Trust has the mandate to issue $250m of 10-year fixed bonds yielding around 350 bps over for the Philippine Long-Distance Telephone Company.

Also in the pipeline are two shorter deals for two Indian borrowers: the Industrial Development Bank of India, with Citibank tipped as lead manager, and the Indian Oil Corporation, said to come via Chase Investment Bank.

Elsewhere, the Province of Buenos Aires is planning a bond issue of its $450m Euro medium-term note programme via Salomon Brothers. The deal was originally supposed to come in the wake of Argentina's global bond offering last December but was then postponed due to a deterioration of market conditions.

Eastern European borrowers are also limbering up for new issuance. Poland plans to raise more than $1bn on the international capital markets once its London Club negotiations for a reduction of up to 45 per cent in its $13bn commercial bank debt have been concluded. More supply is also expected from borrowers in the the Czech Republic and Slovakia.

As long as US interest rate uncertainty continues, most issuers will have to pay larger yield premiums than they did last year, to compensate investors for increased volatility. "Most issuers understand they have to pay up – they realise the market environment has changed," says Mr Keith at Bankers Trust.

"Initially, we will have to have generous spreads," agrees Graham Marshall, head of corporate finance at ING Bank in London. "But once US rates aren't seen rising any further, spreads could contract," he predicts. Once interest rate and election jitters are out of the way, he expects issuance to pick up. "I think we could have a good fourth quarter."

Investors in the secondary debt market need to be more discerning, says **Conner Middelmann**

Caution the watchword after wake-up call

'Some levels of asset prices during 1993 were based on a hope and a prayer'

During last year's raging bull run, you could buy almost any emerging market debt instrument and make a substantial profit. However, amid the uncertain US interest rate outlook and with general elections in several developing nations looming, that performance will be hard to match this year, and investors will need to be a great deal more discerning if they are to ride the secondary debt market successfully.

Prices for emerging market debt were driven to dizzy heights in 1993 on a wave of foreign capital attracted by double-digit returns and improving domestic conditions in many developing countries, where political and economic reforms were beginning to pay off. The rally soon attracted increasingly indiscriminate buyers – including highly leveraged speculators – who helped push price levels that proved unsustainable.

"Some of the gains were purely liquidity-driven," says Marc Wenhammar, head of fixed income at Foreign & Colonial Emerging Markets. Especially in some of the non-performing debt markets, "the price appreciation didn't really correspond with fundamentals – it was pure speculation," he says.

"To be honest, some levels of asset prices last year were based on a hope and a prayer," echoes Peter West, economic adviser at West Merchant Bank in London.

JP Morgan's Brady bond index surged 44.17 per cent last year. West Merchant Bank's secondary debt index, which, besides Brady bonds, includes the commercial debt of countries which have not yet completed the Brady restructuring process, rose by 63.6 per cent.

When the inevitable wake-up call came – in the form of US interest rate tightening in February – it sent emerging bond markets plunging in a sell-off exacerbated by panic-selling from hedge funds and other leveraged players.

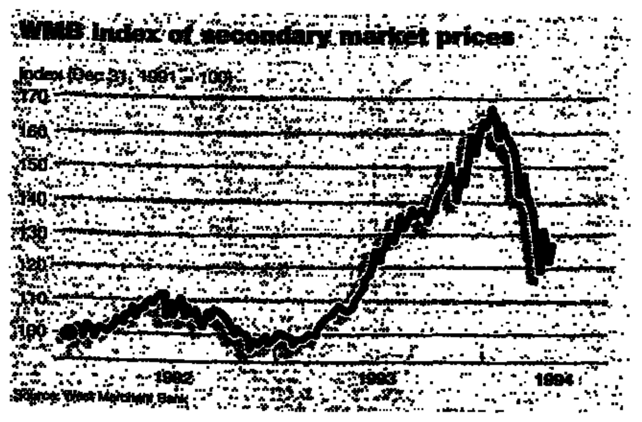
Domestic woes, including the assassination in late March of Mexican presidential candidate Donaldo Colosio, put further downward pressure on prices. In the first four months of 1994, WMB's index shed about 23.5 per cent.

While the slump was across-the-board in nature, it varied in magnitude, with the non-performing assets particularly badly hit. This is a mirror image of last year's developments, when the prices of such instruments were driven up sharply in anticipation of debt restructuring deals, says Mr West. With little or no current yield, these assets had no support during the market sell-off, as exemplified by Peru, Russia and Panama. In the first four months of the year, the price of Peru's Citibank loans plunged by 41.7 per cent, Russian Vneshekonombank debt sagged by 45.5 per cent and Panama's US dollar loans fell by 32.7 per cent.

"Both the surge in inflows in 1992 and 1993 and the sudden contraction in early 1994 reflected a herd mentality," Charles Dallara, managing director of the Washington-based Institute of International Finance, said in a recent speech.

Most specialists feel the sell-off has been overdone and say many markets have begun to offer good value. "The correction has now put markets into cheap territory versus their fundamental credit quality," says Aidan Freyne, head of emerging market sales for Salomon Brothers Europe.

Many also feel the shake-out may prove beneficial for the markets longer-term. "The correction will ultimately be good for the secondary market – it got rid of the speculative money, and is making people look at fundamentals, analysing which markets really provide value," says Elizabeth Morrissey, managing partner of Kleiman International Consultants in Washington.



According to Salomon Brothers, outstanding emerging market debt at the end of the first quarter consisted of some $127bn in Brady bonds; $221bn in medium- and short-term bank debt (including pre-Brady bank debt); and some $112bn in eurobonds, globals and Yankees. In addition, there is about $255bn in local-currency, domestic market instruments, only some of which foreigners can buy. Although the market includes eastern European, African and Asian debt, the lion's share of turnover is in Latin American paper.

New external investment and lending to principal developing countries, which fell from $102.7bn in 1981 to $27.5bn in 1987, surged to $180.8bn last year, according to numbers published by the IIF. Equity and bond purchases dominated last year's flows, each accounting for more than $60bn, with commercial banks providing another $24bn. This contrasts with the heavy reliance on commercial banks in 1981, when they provided about 60 per cent of the total flows.

Heavy private external financing to developing nations bears the risk of "inducing a mood of complacency" among policy makers, Mr Dallara warns, urging that developing nations' governments keep up their reform policies if they want to maintain a stable flow of funds to their economies.

He also said investors need more information on emerging markets: both on their economic performance and prospects, as well as the risks involved – sovereign, liquidity, counterparty and market risks. This could contribute to greater discrimination by investors, and thus reduce volatility "by acting as a counterweight to both bullish and bearish swings in sentiment," he says.

Discerning investors will have to watch out for several potentially market-moving developments this year.

On the political front, several Latin American countries will hold general elections in the coming months, with Mexico's polls in August and Brazil's October elections particularly closely watched.

Moreover, investors should keep an eye on the ongoing debt restructuring process. Bulgaria, Ecuador and Poland are next in line for Brady deals, having reached agreements in principle with their creditors. Panama, where restructuring proposals have already been exchanged, and Peru are expected to reach agreements late this year or early 1995.

Russia is expected to restructure its commercial bank debt this year but there will be no write-off of either principal or interest. Lastly, Côte d'Ivoire has a growing chance of negotiating a deal in 1995 and is the most attractive exotic asset, notes Alexander Mitcheson-Smith, emerging markets analyst at UBS.

As long as US interest rate uncertainty continues to cloud the horizon, emerging bond markets could be prone to unpredictable mood swings. Many observers do not expect to see a sustained market recovery until late this year, when the peak in US rates has passed, the elections are out of the way and growth in the region picks up.

However, some traders are reporting a cautious return by investors seeking exposure to some of the more heavily sold sectors. "We are starting to see investors looking for cheap paper," says one trader. "The market has deteriorated along with Treasuries but its fundamentals haven't – for a lot of people, these levels offer great value for the longer term."

Are dragon bonds doomed to obscurity? asks **Louise Lucas**

The fire has been doused

Dragon bonds set south-east Asia's debt markets alight last year: issuers as diverse as Abbey National and China launched some US$8bn worth of bonds and some bankers found the paper easy to place.

Now, the fire appears to have been doused. Mandates languish in bankers' desks and investors holding the once coveted Beijing issue have seen spreads widen to 125 basis points over US treasuries from 88 basis points at launch.

Some argue that bad timing and lack of liquidity will consign dragon bonds to the mythical status of the creatures after which they are named. Others say it is a lull, predicting that China will be able to tap investors again for capital.

"We believe the dragon bond market is about to balloon. It has been held up because of the US treasury markets," says Mr Chris Nicholas, senior vice-president with Lehman Brothers in Hong Kong.

Some argue that dragon bonds will soon be consigned to the mythical status of the creatures after which they are named

The US investment bank has been by far the most active bookrunner in a league table dominated by American banks.

Since the Asian Development Bank's first issue in December 1991 some US$[illegible]bn has been raised through dragon bonds, which are priced, launched and syndicated in Asia Pacific (excluding Japan) and listed in at least two of the three centres – Hong Kong, Singapore and Taiwan.

Some landmarks stand out – the US$300m five-year dragon bond launched by General Electric Capital Corporation, the first corporate to test the waters, and the 10-year money raised by China.

By issuing dragon bonds issuers can tap a healthy vein of demand that was previously frustrated at being left with the crumbs of eurobond issues: successful deals were fully taken up in London by the time Asian investors awoke, leaving them just the less popular issues.

Not all bankers share Lehman's enthusiasm for dragon bonds. One syndicate manager notes: "Coming to Asia to extract five basis points over and above what a fair market price would be in Europe is irresponsible tourism."

He offers a more regional role for the market: a forum for local investors to meet local borrowers, where a single A rating (or no rating at all) is not the leper's bell it might be in Frankfurt or London.

Economic conditions in Asia – fast growth and big demand for financing (total costs of upgrading basic infrastructure have been estimated at US$1,000bn) – support the call for a specific Asian bond market.

"When the time comes that Asian currencies or targeted transactions offer the best funding, that's the time when the dragon market will really shine," says one banker.

For its proponents, the existence of an Asian market is part of the globalisation of capital markets, rather than an alternative to global issues. It is the natural market for borrowers who may not have a presence in Europe, for example, but who wish to tap American and Asian investors.

Mr Nicholas says: "A lot of people are advocates of global markets, which have definitely started and increased quite dramatically in [illegible] months or so, [illegible] institution need[illegible] to the market [illegible] borrow US$1bn. We [illegible] projects right now in Asia where they need financing of US$200m to US$300m – that's a perfect fit for the dragon bond market."

However, the market has been shunned by local corporates. Companies in Hong Kong (traditionally cash-rich and without credit ratings) have steered clear, preferring to issue eurobonds and convertible bonds.

That Hong Kong corporates will continue to tap international investors is signalled by ambitious expansion plans (chiefly in China) and by the fact that companies such as Wharf Holdings and Swire Pacific have secured credit agency ratings.

Wharf, the conglomerate with interests spanning property, ports, cable TV and telecommunications, became the first to secure a rating earlier this year. The company was also among the first to raise money overseas in a bond issue in June last year.

The triple-A-rated GECC has returned to the dragon bond market twice since its 1992 debut, raising a further US$350m in three-year paper, and Intelsat has followed China to become the second issuer of a 10-year issue. By far the bulk of offerings has been on a fixed-rate basis, although in the first quarter this year the sums raised in floating-rate bonds exceeded that in fixed rate issues.

If more companies and sovereign borrowers take up the baton as bond markets revive, bankers say new fire will be breathed into the dragon bond market. But as an embryonic market it still has far to go.

International equities: **Tracy Corrigan** says business is holding up well

Privatisation the driving force

Some record offerings are likely to come to the market in a year or so

Business in the international equities market has held up well this year, in the face of weaker domestic stock markets and volatile interest rate conditions.

In the first quarter, the volume of new international equity issues reached $11.6bn, according to Euromoney, well above last year's first quarter total of just over $5bn.

However, last year's bumper volume of $36.5bn was weighted towards the second half of the year, as the strong performance of stock markets encouraged a number of governments to push ahead with privatisation programmes.

This year, although the types of new issues remain diverse – ranging from secondary offerings of common stock, to global depositary receipts and initial public offerings – privatisation is the driving force, particularly in Europe.

The poor performance of emerging markets in Asia and Latin America this year has hit business in those areas hardest, though some analysts believe issues from these regions now offer better value.

The increase in volume also reflects a growing trend towards structuring equity offerings as international rather than domestic deals, as institutional investors continue to increase their allocation of assets overseas.

"We still have a bigger pipeline of business than we did this time last year," said Mr John St John, a director of Kleinwort Benson.

However, the worsening of conditions in the stock market has made investors much more sensitive to pricing: increasingly, issuers are being told to price their deals attractively or stay out of the market.

Despite the need to price new issues more cheaply the flow of deals has not abated. This is because many governments which have embarked upon privatisation programmes are not in a position to wait for conditions to improve.

"Basically, governments around the the world are burdened with a big debt problem, an ageing population and a social services superstructure which they can no longer pay for out of taxes," says Mr St John. "It's not just that they want to make their companies more efficient: they have to sell off assets to pay for it all."

As a result, some record offerings are likely to come to the market in the next year or so, for example from Germany, where Deutsche Telekom and Lufthansa are expected to be put on the block.

The Deutsche Telekom deal, which is likely to take more than a year to come to market, is expected to be the largest equity offering to date, with estimates in the range of DM25bn.

The Swedish government recently announced its largest privatisation offering: it is selling SKr 10bn of shares in Pharmacia, the pharmaceuticals group – or 32.5 per cent of the company.

Other European countries which still have slates full of privatisation issues include Italy, Austria and Spain.

"There is, waiting in the wings, an enormous amount of privatisation business," which will not be halted by the more demanding market conditions, according to Mr David Freud, vice-chairman of Warburg International. "There is too much political goodwill invested in the programmes."

Issuers are being told to price their deals attractively or stay away

At the same time as governments are privatising state companies, they are acting to relax capital raising controls on non-state companies.

In Austria, where the privatisation programme is being accelerated, the taxation rules have been changed to make it more attractive for companies to issue paper. For example, Mayer Melnhof, a private company, recently brought a $300m offering.

Liberalisation of controls has been particularly evident in some Asian countries, such as India, where business has been particularly active. The strength of Asian stock markets helped issues from the area to soar last year, but the market has since become far more selective.

Deals now have to be priced attractively to attract institutional investors. The postponement of a planned $1bn issue for Videsh Sanchar Nigam (VSNL), the state-controlled international telecommunications monopoly by the Indian government, which would not lower a price considered too high by fund managers, reflects the new mood. But many governments are likely to decide that they would rather accept a slightly lower price for their assets than wait for the market to turn.

Deals which are attractively priced can still be oversubscribed: Tele Danmark, the Danish state monopoly telecommunications operator, met strong demand for its sale of 48.3 per cent of its shares yesterday, worth around $3bn.

International equities volume (1993-94)

Launch	Shares ($m)	Issues
January	955.39	12
February	904.19	20
March	3,428.63	38
April	1,344.83	25
May	1,980.54	38
June	5,832.88	48
July	3,595.38	41
August	1,053.43	25
September	3,275.10	41
October	4,420.07	38
November	5,644.43	75
December	4,306.57	63
1993 total	36,491.45	464
January	3,028.12	27
February	5,111.02	35
March	3,523.78	42
April	4,999.84	29
1994 total	16,662.76	133
TOTAL	53,154.21	597

Source: Euromoney

But US investors are proving particularly selective: several underwriters reported poor US demand for the French privatisation issue for UAP, the insurance company, blaming the pricing and the surplus of financial services deals.

Meanwhile, the pace of issuance by US companies – both initial public offerings and secondary offerings – has slackened somewhat.

"I would characterise it as a buyer's market rather than a seller's market," said Mr Ludovico del Balzo, a managing director of Lehman Brothers.

Meanwhile, as the long-term trend towards greater diversification of assets is set to continue, the use of international equity offerings is likely to become increasingly important. In countries such as China, India, and Brazil, the rash of deals launched last year has barely scratched the surface of these huge markets.

But in the short term, bankers are learning to tone down their promises to potential issuers.

"In terms of supply, it will be pretty sustained – the key is to make sure that deals come to market at reasonable levels," Mr del Balzo warns. "I don't think there is a frenzy of irrationality. In general, people are becoming more realistic."

Derivatives: **Tracy Corrigan** discusses one bright patch in the markets

The tail still wags the dog

While conditions have worsened significantly in most markets this year, there is at least one bright patch: the derivatives market. The growth of the exchange-traded market in futures and options and the over-the-counter market in swaps and options shows no sign of abating. In fact, the world's futures exchanges experienced record volume in the first quarter, as dealers, treasurers and investors used futures to try to hedge or reposition themselves, after the US Federal Reserve raised interest rates.

The reason for the continued activity in the derivatives market, while activity in some other areas has dropped off, is partly that derivative instruments can be used to take bearish as well as bullish positions, so there is no logical reason why activity should slide in a bear market. Also, derivatives can be used to trade volatility, so volume tends to rise when market conditions are volatile.

However, the high level of activity in derivatives this year has had some negative impact, most notably by rearousing fears that the world's financial markets are now driven by derivative rather than cash market trading – or, as is often said, the tail is wagging the dog. These fears were repeatedly voiced in the wake of the 1987 stock market crash, when stock index futures were blamed by some observers for precipitating or exacerbating declines.

However, the fact that bond losses in the first quarter of 1994 were first seen in the futures markets can also be explained by the greater liquidity of futures, relative to cash markets. Some investors and traders, though, undoubtedly had their fingers burnt, having taken aggressive positions in the futures markets.

"Overall, the amount of business in derivatives markets continues to grow at a healthy rate," said Steve Smith, an executive director of Swiss Bank Corporation. "Unfortunately, towards the end of last year a number of proprietary institutions – banks and hedge funds and some traditional investors – had built up large speculative positions, mainly in bonds, to a level which the market place had never seen before. The unwinding of these positions led to a short-term diminution in some areas of activity. However, the ongoing use of derivatives for traditional fund management and for risk management on the treasury side is growing in leaps and bounds."

According to the International Swaps Dealers Association, the notional amount of over-the-counter swaps outstanding is about $4,500bn. The OTC market has generally been the forum for greatest innovation, developing exotic options such as knock-out options, which reduce the cost to the end user. Some futures exchanges are trying to adapt products from the over-the-counter market, so that they can offer standardised contracts which have some of the flexibility of the OTC market. For example, the Chicago Board Options Exchange has introduced Flex options, which allow standard contracts to be adjusted to individual needs.

The swap market used to be closely linked to the new-issues market, but is now increasingly used by companies on an ongoing basis, for treasury management.

However, some heavy losses by corporate treasury departments using derivatives has turned off some companies, and could create a more difficult environment for banks marketing these instruments. Germany's Metallgesellschaft had to be rescued by its banks when a trading subsidiary incurred estimated losses of $1bn on oil derivatives, the largest in a series of losses by companies such as Allied Lyons and Showa Shell.

Perhaps even more worrying for banks, Procter & Gamble recently threatened legal action against Bankers Trust, after it took an after-tax loss of $100m on swaps sold by Bankers Trust. While the legal grounds for such a claim remains shaky, the floating of the notion that banks are irresponsibly marketing risky instruments is damaging, even if it cannot be made to stick.

Such developments are likely to attract further scrutiny from regulators, many of whom have already expressed concern about the potential knock-on effects of problems in the derivatives market. Although a number of reports by regulatory authorities such as the Bank of England have adopted a fairly conciliatory tone, there are still calls for regulators to tighten up on derivatives use, or at least to force greater disclosure.

The latest warnings have come from the US General Accounting Office, which said in a report that inadequate regulation of the derivatives markets poses a threat to the US and international financial system. The report is expected to increase pressure for legislation to control the markets.

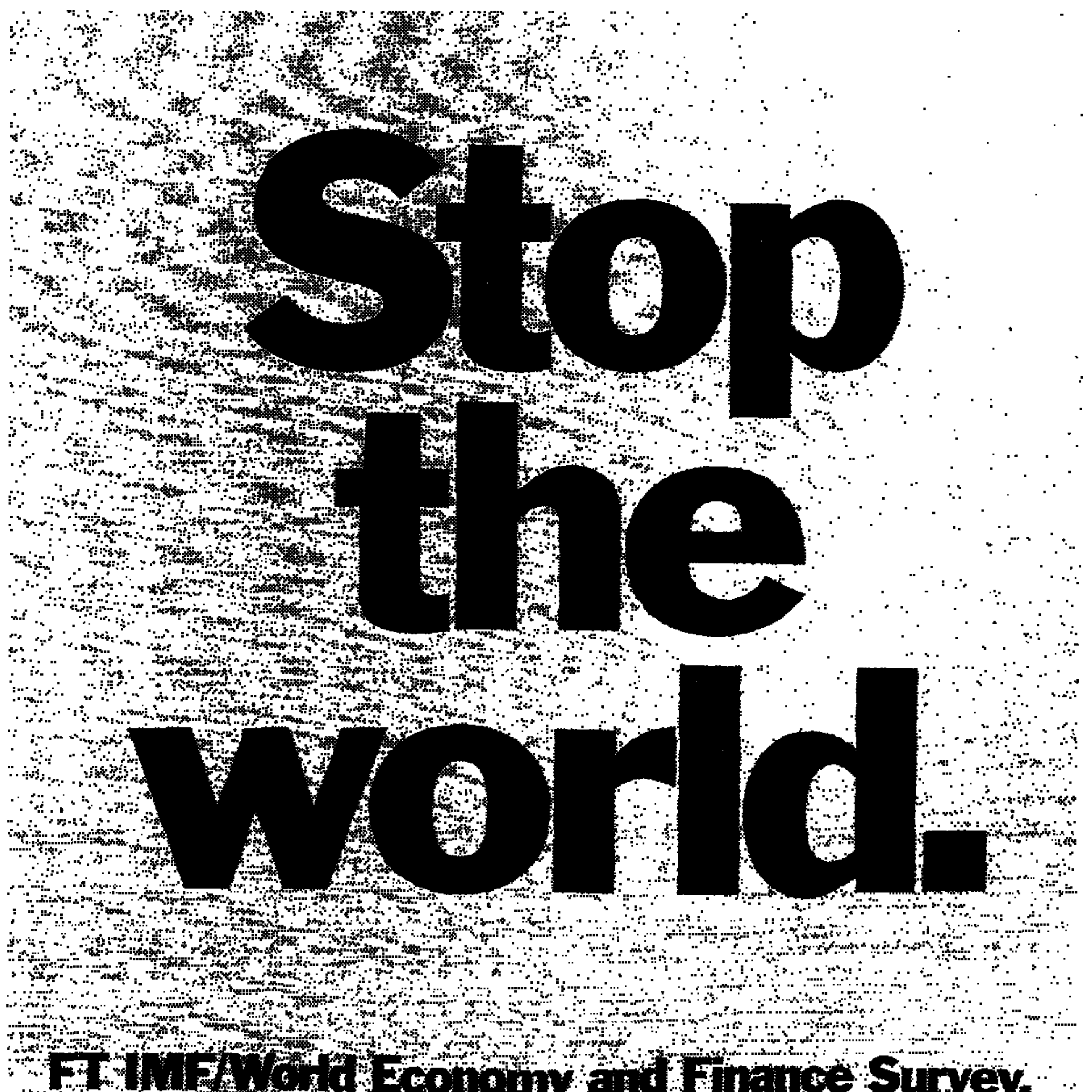
The industry has made some efforts to put its house in order, by tightening control standards. The Group of Thirty report on derivatives in 1993 set strict guidelines. Further, US banks such as Citibank have led the way in giving fuller details of their derivatives exposure.

Closer scrutiny by regulators and a spate of losses due to poor controls have undoubtedly succeeded in concentrating the minds of bankers at board level, some of whom had risen through the ranks in a pre-derivatives era.

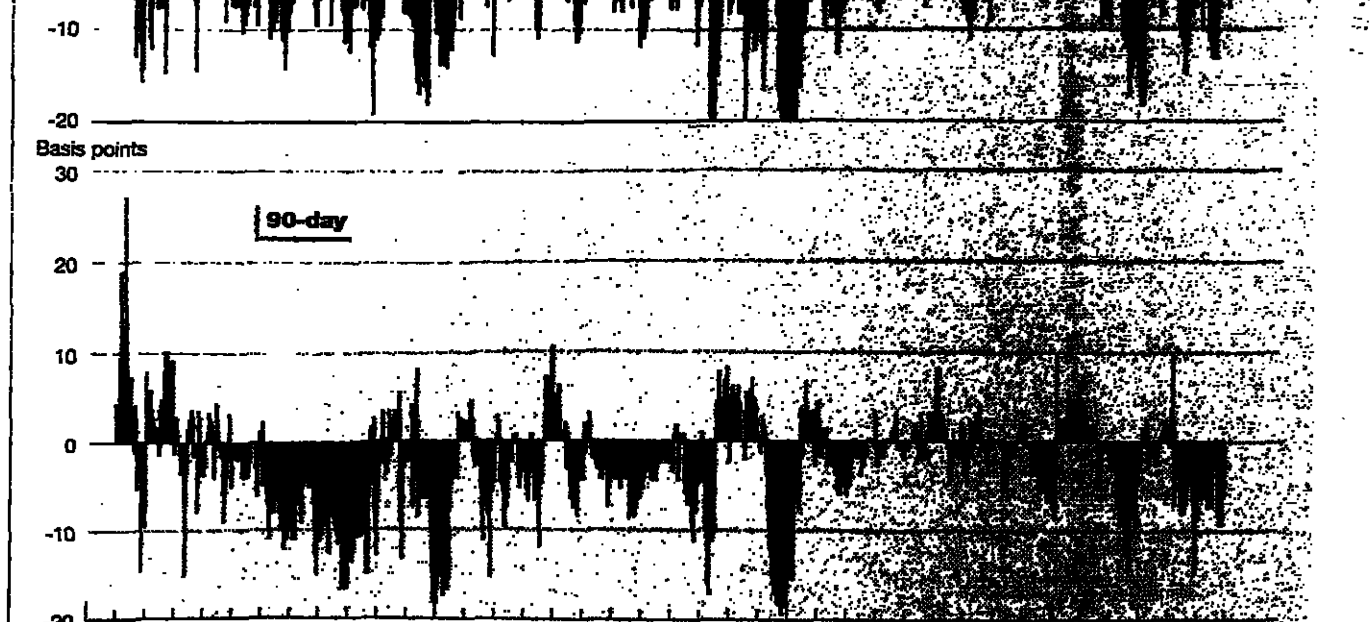
The rapid expansion of the derivatives market has forged stronger links between markets. The notional amount of futures contracts traded annually on world exchanges is around $140,000bn. In many cases, futures markets, with standardised contracts and centralised clearing, are more liquid than the underlying cash markets, and tend to drive cash prices up and down. For example, volume in FT-SE 100 index futures on the London International Financial Futures & Options Exchange (Liffe) is two and a half times the stock market's turnover.

The most active futures contracts are traded in the dealing pits of exchanges, but some contracts, particularly options contracts, have successfully shifted to electronic trading. The battle between traditional open-outcry trading and electronic screen-based trading is likely to take some time to resolve.

However, Globex, the 24-hour futures trading system jointly developed by Reuters, the Chicago Mercantile Exchange and the Chicago Board of Trade, has achieved disappointing volume.



ECP compared to USCP



Source: BZW

These graphs outline the continuing convergence of rates in the USCP[1] and the ECP[1] markets. As evidenced by these graphs, at present the ECP market is more competitive than the USCP market. The graphs assume that the issuer of ECP and USCP is rated A1/P1, although even at this rating, levels achieved will vary slightly from issuer to issuer. Assuming standard levels, ECP would be issued at Libid plus 6 basis points (i.e. the mid price between Libid and Libor) and USCP at Fed double-A flat (the benchmark level used for this market).

1 US commercial paper and Euro commercial paper

Commercial paper: the ECP market is thriving, says **Antonia Sharpe**

Cash haven lures investors

The volatility which has plagued the government bond markets across the world since the US Federal Reserve started raising interest rates in February has increased the attraction of the Euro commercial paper (ECP) market.

The prospect of higher interest rates in the US, and uncertainty over the long-term direction of UK rates, has prompted fixed-income investors to shift the balance of their portfolios away from long-dated instruments to the very short end of the yield curve, analysts say.

The short maturities available in the ECP market, from one day to 364 days, appeal in particular to investors who are looking for a safe haven to deposit their cash until the conditions in the bond and equity markets improve. This defensive investment strategy is expected to keep outstandings in the ECP market at their present high levels for most of this year.

"The ECP market is looking healthy and there is strong demand from investors for good-quality paper," says Ms Julie Joe, CP product manager at Lehman Brothers.

According to Lehman Brothers, the total combined ECP and Euronote market outstandings increased $2bn during the first quarter of 1994 from $110bn in the last quarter of 1993 to $112bn, of which the total ECP outstandings account for $81bn. In the same period, the USCP outstandings increased by the same proportion from $560bn to $570bn.

Although the ECP market is much smaller than the USCP market, its competitive rates are attracting a growing number of US issuers. Mr David Knight, managing director of CP operations at BZW, says that rates in the two markets have been coming closer together and that in recent months ECP rates have consistently been five basis points cheaper than in the USCP market. He adds that the ECP market also offers US issuers a tax-efficient way of funding their European operations.

Another factor which is increasing the attraction of the ECP market is renewed confidence in its ability to provide quick access to short-term liquidity. Question marks over its liquidity and efficiency were eliminated last June when Denmark raised as much as $1.5bn in a matter of days to support the Danish krone when it came under attack from foreign exchange speculators.

Since then, the size of ECP programmes has increased steadily. Ford Credit Europe, Hanson and Guinness have been able to raise funds of more than $1bn, amounts which have previously been the sole domain of sovereign borrowers. Other high-profile ECP programmes include $1bn for Bankers Trust New Zealand and $500m for PowerGen, the UK's second largest electricity generation company.

"Now corporates are able to access the market in excess of $1bn," says Mr Knight. He adds that this development will facilitate any needs in the corporate sector to fund short-term working capital requirements, especially now that inhospitable conditions in the primary markets discourage the launch of bond issues.

Six or seven large programmes are expected to emerge over the next few months from a variety of European and US borrowers, including corporates, banks and quasi-sovereign entities, analysts say. The inroads which the ECP market has made into the German and Swiss domestic markets as a result of deregulation in the two countries have also contributed to the increased volume. Issuers can now issue in D-Marks and Swiss francs directly under their ECP programmes.

There are also signs that European issuers are looking to raise funds in the US. In April, the Electricity Supply Pension Scheme, the second largest pension scheme in the UK, became the first one outside the US to obtain credit ratings from Standard & Poor's and Moody's, the two leading international ratings agencies, in order to access the USCP market.

Mr Brian Matthews, finance director of ESN Pension Management Group, said that one of the main benefits of the rating was that the scheme's US investment property company, Eastern Realty Investment Corporation, was able to raise $105m in the USCP market at an average interest rate of less than 3.5 per cent.

This financing route pro-

Continued on page 5

Syndicated loans: **Tracy Corrigan** sees signs of greater interest

Banks chase new business

The rapid evolution of the international bond markets in recent years has encouraged more and more borrowers to tap the capital markets directly for their core financing, forsaking the syndicated loans market.

However, after a decline in the volume of conventional syndicated credits over a period of years, there are signs this decline is being reversed.

In 1993, international syndicated loans volume reached some $130bn, according to the Organisation for Economic Co-operation and Development's Financial Market Trends, about $12bn higher than the previous year. However, more than $60bn of that total consisted of refinancing of existing debt, particularly by US companies, so the total volume of new loans was $70bn, the lowest since 1986.

But the international bond markets place certain demands on borrowers: they must generally have a relatively high credit rating, they cannot repay the debt as and when they want to, and they must rely on the receptiveness of a given market at a given time. For these and other reasons, direct bank lending, syndicated or otherwise, still performs a number of vital functions.

In addition, after suffering a squeeze on their capital, commercial banks have shored up their balance sheets in the last few years, and are again willing to commit capital to lending. Their capital/assets ratios have improved, as levels of bad debt has declined and as old debt has matured.

Bond market weakness this year could help boost activity in the syndicated loans market. In a bull market, it tends to be easier for lower-rated borrowers to tap the market. In a bear market, they may be forced to return to their banks for funding.

Other types of bank financing have been buoyant, in particular project financing, which is often for large and risky infrastructure projects. This allows companies, perhaps able to raise money in their own right, to isolate themselves from liability to the debt, by securing the financing on the cash flows created by the particular project.

For example, in the case of the Rayong refinery in Thailand, the key sponsor was the Royal Dutch/Shell group with a 64 per cent stake, while the Petroleum Authority of Thailand had a 36 per cent stake. Shell could easily have tapped the international markets, but was able to obtain non-recourse financing so it would not have to risk its balance sheet. The debt financing of the $2.4bn project was made up of a $1.1bn facility. The structure allowed the joint venture to take advantage of export credit guarantees.

Top 10 arrangers of international syndicated loans in 1993*

Rank	Bank	Amount ($m)	No	% share
1	National Westminster	15,631.370	124	7.6
2	Citicorp	13,591.870	119	6.6
3	Barclays	10,807.640	103	5.2
4	Deutsche Bank	9,763.422	58	4.7
5	Hongkong/Midland Group	7,272.328	86	3.5
6	Chase Manhattan	6,798.101	100	3.3
7	Chemical	6,761.850	96	3.3
8	ABN-AMRO	6,527.161	83	3.2
9	Union Bank of Switzerland	5,540.704	67	2.7
10	JP Morgan	5,503.339	40	2.7

*Signed loans only, ranked by equal apportionment. Source: Euromoney

The dividing line between bank credit and bonds, as between so many other markets, has become increasingly thin. For example, some bankers argue that since many floating-rate note issues launched in Asia are placed directly with banks, they are loans rather than bonds. The difference between a floating rate note issue bought and barely traded by a number of banks and a loan syndicated among the same banks, they say, is technical rather than material. Increasingly, a knowledge of the bond and loan markets is needed. "You need to know at what level the companies' bonds can be asset-swapped, when you are pricing loans," said Mr Alby Cator, head of syndicated loans at NatWest Markets.

Although there is little sign of a net increase in volume, the greater enthusiasm of banks for lending is revealed by a tightening of the spreads over the London interbank offered rate at which loans are being agreed. Mr Cator says the spread for a top-rate corporate borrower has tightened from ⅜ point over Libor a year ago to ¼ point over Libor. "We haven't yet seen how low spread will go," he warns.

Eighteen months ago, companies were borrowing at 45-50 basis points over Libor. However, in April 1993, Reuters signed a £160m five-year revolving credit with a margin of ⅜ point over Libor. Despite the aggressive pricing, the deal was heavily oversubscribed, and increased from its original size of £100m.

That deal was followed by a £150m revolving credit in May for Northern Foods, with the same margin, which also was increased. Last month, WH Smith raised £140m through a £140m revolving credit on the same terms – again oversubscribed. Bankers say that bilateral loans have been agreed at tighter margins.

In March, Allied-Lyons raised $250m over six years at a margin of 30 basis points – but that was for a guarantee facility rather than a revolving credit. In February, BTR Dunlop Finance agreed a three-year revolving credit facility with a margin of 25 basis points. There is anecdotal evidence a number of corporate treasurers are waiting to see if margins have further to fall before coming to the market.

"There have been fewer big corporate deals than we would have expected," according to Mr Stan Hern, a director of Samuel Montagu. "Some have held off, expecting pricing to go down." Generally, companies appear to be borrowing less than in the last cycle, he added.

Meanwhile, there has been a resurgence of sovereign business. Most notably, Spain signed a three-year revolving credit facility in September for Ecu5bn, at a margin of just 7.5 basis points. The facility, designed to replace lines from the central bank to the treasury, was heavily oversubscribed.

Because of the zero risk weighting of sovereign credits, which means that whatever their credit rating banks do not have to put aside capital to meet guidelines, the banks can afford slimmer margins.

While the syndicated loans market has yet to show a marked increase in volume, the good news for borrowers is that banks are chasing what business there is more aggressively. "There are a lot of foreign banks with operations in London that have to be paid for," said one banker. "The maturity of asset portfolios means loss of income, so some banks are desperate for assets, and that is pushing down prices."

International syndicated loans volume (1993-94)

Month	Amount ($m)	Issues
January	13,038.892	128
February	10,859.106	142
March	17,117.881	172
April	12,255.242	131
May	21,758.295	150
June	15,397.362	182
July	22,110.420	208
August	14,544.910	141
September	26,863.741	169
October	11,407.785	133
November	16,156.735	160
December	25,929.089	212
Month unknown	1,967.924	37
1993 total	210,205.162	1,965
January	10,916.801	127
February	9,712.423	129
March	16,209.709	179
April	16,615.555	85
Month unknown	71.000	3
1994 total	53,525.488	523
TOTAL	263,730.650	2,488

Source: Euromoney

Patrick Harverson and **Antonia Sharpe** look at securitisation

Market stopped in its tracks

The rise in US interest rates in recent months has clouded the outlook for the asset securitisation business in the US.

While the volume of asset-backed securities grew by 9 per cent to $56.8bn in 1993, the market has stopped in its tracks this year. By April, $15.4bn in asset-backed securities had been issued, down from $15.7bn in the first four months of 1993.

The larger mortgage-backed securities (MBS) market has also experienced a reversal but when it came it was later in the year, and more severe. While first quarter MBS new issue volume grew by about 6 per cent to a record $108.8bn, it plunged 75 per cent in April when only $7bn of securities were issued.

The downturn in the asset-backed and MBS markets also reflected the increase in bond market volatility. As Ms Patricia Bonan, head of asset-backed finance at Chase Securities in New York, explains: "It is not the absolute level of interest rates, but interest rate volatility that has kept investors on the sidelines."

Nevertheless, the business of securitising assets remains in a healthy condition, and innovation is still a feature. Last year, car loans and receipts were the most heavily securitised form of asset (volume totalled $24.9bn), followed by credit and card charge receivables ($19.1bn). However, many other types of assets are being securitised in greater numbers as issuers seek a cheaper way to finance their asset growth.

Recent innovations include securitised automobile dealers' loans (the money vehicle manufacturers lend to their dealers to purchase new cars and trucks), agricultural equipment loans, automobile leases, and loans granted to companies by Eximbank, the government body which provides export credit guarantees.

Innovation in the MBS market has been hit by the turmoil and volatility of recent months which left participants reeling – particularly those active in the MBS derivatives market, where volatility destroyed their assumptions about prepayment levels and made the pricing of securities such as collateralised mortgage obligations (CMOs) extremely difficult. As prices fell and liquidity dried up, some leveraged funds which had taken big positions in CMOs came unstuck. Askin Capital Management was forced into bankruptcy in April because of its huge CMO-related losses.

Those seeking security in the MBS market were attracted by the launch of collateralised mortgage obligations by Ginnie Mae (the Government National Mortgage Association). Although existing CMOs issued by other government mortgage agencies such as Fannie Mae (Federal National Mortgage Association) are popular because the underlying mortgages are supported by an inferred federal guarantee, Ginnie Mae's mortgages enjoy an explicit federal backing. Thus, its CMOs will carry a zero risk weighting – a big attraction for conservative investors.

Although securitisation is a huge market in the US, its development in the UK is at an early stage. Banks and building societies seeking to diversify their funding sources have started to experiment with this financing technique. In the past year, Barclays Bank and National Westminster Bank have launched mortgage and personal loan securitisations.

Regulatory constraints have hampered the use of securitisation by building societies which last year had just under 60 per cent of the UK mortgage market. The tradition of lending through floating-rate mortgages as opposed to fixed-rate mortgages also puts the UK at a disadvantage because variable-rate assets are more difficult to match.

The Building Society Commission, the sector's statutory regulator, is due to publish guidelines in the next two months on how building societies can securitise their assets.

Leeds Permanent Building Society, the UK's fifth-largest, is close to becoming the first society to fund its mortgage lending business through securitisation. Nationwide and Skipton have also carried out similar studies.

Leeds has spent the past two years setting up a system to securitise its mortgages so that it can handle higher mortgage volumes. Leeds plans shortly to test the system by using a pool of its mortgages as collateral to raise up to £100m from a small group of banks rather than through selling securities in the public market.

The form of securitisation which the Leeds plans to undertake offers societies another way of gaining access to wholesale markets. If more societies approach the regulatory limits on their wholesale funding, this might prove an attractive alternative form of funding.

By comparison, Germany and Denmark have long-established mortgage bond markets through which mortgage banks can raise funds by issuing bonds which are backed by their assets. In Germany, the Pfandbrief dates back to a special decree by Frederick the Great in 1769, while in Denmark, the first mortgage credit institutions were set up at the end of the 18th century to meet the large financing needs after the great fire in Copenhagen in 1789.

Dr Helmut Scholz, management board member of Bayerische Vereinsbank, a leading Bavarian mortgage bank, says Pfandbriefe are much safer than mortgage-backed securities because they are issued on the basis of the German mortgage bank act which ensures investor protection through a system of stringent regulations.

Danish mortgage banks are also subject to strict regulations, says Lars Rohde, management board member of Realkredit Danmark. For example, banks are required to balance their lending and borrowing and they are not allowed to take foreign exchange or interest rate risks.

Despite the high degree of investor protection and liquid secondary markets, both German and Danish mortgage bonds trade at a fairly wide yield spread to government bonds. The differential is thought to reflect the low take-up by foreign investors and mortgage banks in both countries have recently been publicising their bonds abroad in a bid to attract more foreign investment.

Cash haven attracts

Continued from page 4

vided two advantages to the scheme, he said. First, it was tax-efficient because the scheme did not have tax-exempt status in the US. Second, if the scheme had lent the funds to the US subsidiary, it would have had to give up a return which was much higher than the interest rate which the US company was paying.

Despite the higher profile the ECP market enjoys, several factors could hinder progress. The need to have a high-quality rating is the main obstacle facing potential issuers. At present investors tend to be conservative and restrict themselves to the best-rated paper.

As a result of this black-and-white attitude to credit ratings, many issuers with mediocre ratings have difficulty raising significant sums in the ECP market. By contrast, they have good access to the US domestic market.

Mr Knight points to another negative development – the largest ECP investor segment, the French Sicav money market funds, have been reducing their holdings of ECP to comply with regulations laid down by the Commission des Opérations de Bourse, the French stock market authorities, that Sicavs can hold only a maximum of 10 per cent of assets in unregulated instruments such as ECP.

On this page, FT writers profile an intermediary, Merrill Lynch, an investor, Lombard Odier, and a borrower, Abbey National

Impressive placing power

Some months ago, news that a veteran Merrill Lynch investment banker had flown in from New York to call on London clients sent shivers down the spines of the locals. Was he about to snatch a big deal from under their noses? asked worried eurobond syndicate managers at the London-based houses.

His arrival was given further importance because it coincided with market rumours that Hanson, the Anglo-American conglomerate, was about to launch a large global bond offering. The Hanson deal has yet to surface, but nevertheless the episode serves to illustrate the strong presence which Merrill has built in the international capital markets.

As the biggest US securities house with a market capitalisation of $8bn and an enviable distribution system to institutional and retail investors, one expects Merrill to have a dominant position in the US and in the international arena. According to Securities Data, Merrill was the leading underwriter of worldwide public new issues of debt and equity in 1993 with business worth $193bn. It also maintained its market share of just over 13 per cent.

Merrill's placing power, its wide range of services and its ability to execute currency swaps are some of the strengths which attract borrowers. Officials at a European sovereign borrower which has been active in the eurobond market in recent years say that although Merrill tends to be more anonymous than its competitors, it has strong ideas on derivatives, swaps and other structured products.

The perception that the company "transcends individuals" also appeals to the treasurer of a UK bank who regards Merrill as one of the best dealers in medium-term notes, a facility which is increasingly popular with borrowers. However, another UK corporate treasurer feels rather neglected by Merrill with respect to primary issues now that the yield spreads on his bonds have tightened substantially. "They get more bang for their bucks by working with medium-range credits," he says.

Indeed, Merrill has been closely involved with issuers, sovereign borrowers in particular, which are seen to be improving credits. It has arranged issues for Portugal, Argentina and is widely expected to lead-manage the first eurobond offering for Lebanon later this year.

Although Merrill is seen as a powerful fixed-income house, it has also made rapid strides in the international equity market in recent years. According to IFR Securities Data, Merrill raised $4.64bn in international equity issuance in 1993, putting it second in the book runners' table behind Goldman Sachs. Although it only moved up just one place from the previous year, it almost doubled the amount raised in equity issuance compared with 1992.

By contrast, Merrill only achieved fifth position in the widely-watched eurobond league table last year when it raised $17.9bn out of total eurobond issuance of $400bn, putting it behind Goldman Sachs, Deutsche Bank, Morgan Stanley and CS First Boston.

Syndicate managers at other London-based eurobond houses offer several reasons why Merrill's profile in the eurobond market is not as high as it could be. Some say it is because the London operation tends to report back more to New York whereas other US houses in London have more autonomy. Others put it down to Merrill's dependence on eurodollar issuance. "It has virtually no penetration in sterling or D-Marks," says one syndicate manager.

However, Merrill has been taking steps to broaden its range of currencies which should enable it to underwrite more business in the eurobond market. It has built up a presence in yen and French francs and its return to dealing in UK government bonds earlier this year should help it to win more primary eurosterling mandates. Heavy losses had prompted Merrill to pull out of gilts in 1989.

Expertise in money markets and floating-rate notes have also enabled Merrill to make the most of the change for the worse in market sentiment which has prompted investors to opt for short-dated maturities and for floating-rate as opposed to fixed-rate bonds.

These developments already appear to be producing results. According to IFR Securities Data, by early May Merrill had clawed its way to second position in the 1994 eurobond league table with just under $10bn worth of new issue business or 6.5 per cent of the total.

However, Merrill has exposed itself and its new issues to potentially harsh scrutiny by the market following its rather arrogant contribution to a recent debate on whether the eurobond market's fixed-price re-offer mechanism needed to be amended.

In a letter to IFR magazine, which acted as a forum for the debate, Merrill said: "Difficulties clearly arise with the fixed price re-offer mechanism with respect to transactions which are clearly mispriced and/or poorly mis-timed. It is our policy to avoid such transactions and hence are not in a position to make an informed comment."

Antonia Sharpe

Crucial transition period

The company treasurer, once a rather marginal figure within an organisation, has grown in status in recent years. The growing complexity of the financial markets and the increasing range of sophisticated instruments available have made his task more difficult and more highly valued, while a series of well-publicised losses on derivatives by treasury departments have also resulted in closer scrutiny of the treasury operation.

This is particularly true of bank treasurers, whose activities are even more central to the wellbeing of their institutions than those of corporate treasurers.

Gareth Jones, Abbey National's treasurer since the building society acquired bank status in 1989, has seen his department through a crucial transition period. Since becoming a bank, Abbey has been more active in using international capital markets. Its treasury is considered one of the more aggressive and professional operations in the financial markets, in its activities as an issuer and as an investor.

Last year, it raised $5.5bn in the international bond markets. So far this year the total is $5bn, of which $4bn was completed in January, before the markets turned sour. In addition, Abbey also has a $4bn US commercial paper programme, of which $2.5bn is drawn, and a $10bn medium-term note programme, of which $8.5bn is drawn.

Part of the challenge has been to raise the international profile of the company. "We have had a pretty good reception in the long-term debt market – we have achieved quite good rates in lira," said Mr Jones. Nevertheless, in a market where perception often lags change, it has been a battle to convey the message abroad that Abbey is now a bank, rated AA by Standard & Poor's and AA2 by Moody's, rather than a building society, considered a more esoteric breed by overseas investors. Abbey National has therefore held a series of roadshows in Europe, aimed at the banks which manage local retail distribution.

Gareth Jones: runs the treasury services as a profit centre

As well as tapping retail demand, Abbey has also built a stronger institutional base, by issuing large liquid transactions. So far this year, Abbey has launched $1bn offerings of fixed and floating-rate bonds. Last year, Abbey issued a 10-year eurobond in the sterling market which, after the second tranche was launched, totalled £1bn, equalling in size the largest deal in the sector.

As well as being a sizeable issuer, Abbey National's treasury is also active as an investor – it is the largest investor in the sterling mortgage-backed bond market, but it runs investment books in a number of currencies, the largest of which are sterling and dollars. Abbey has also bought bonds in the US mortgage-backed market, and is keeping track of developments in the European asset-backed market.

In a radical departure, Abbey has also set up a joint venture in derivatives with Baring Brothers. Abbey National Baring Derivatives was set up last year as a branch of Abbey National Treasury Services – a move which caused concern about the potential risks of derivatives business, although Abbey insists its strategy is conservative. Unlike most corporate treasuries, Abbey National Treasury Services is run as a profit centre: pre-tax profits in 1993 reached almost £200m, having shown consistent growth since 1989.

The arguments against running a treasury department as a profit centre are strong for industrial companies, where the treasury is mainly designed to service other business areas. But a bank treasury is an integral part of the main business.

Nevertheless, despite the strong performance of Abbey National Treasury Services, Mr Jones believes that a purely profit-oriented approach is potentially dangerous for a treasury operation. "We are a profit centre but the chief executive is not pushing for additional profits from treasury," he said. "If things go wrong in treasury it will have a disproportionate effect on the public perception of the business."

Tracy Corrigan

Dynamic Swiss approach

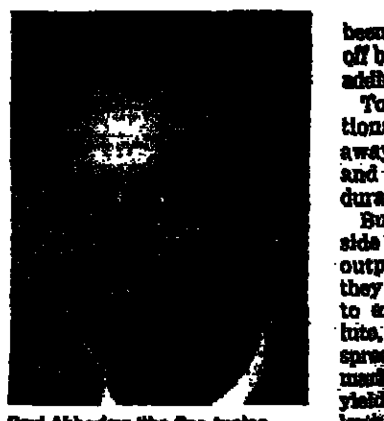
Swiss private bankers are reputed to be low-risk, conservative investors. All the more remarkable then, that one of the country's oldest banks, Lombard Odier, should have a fixed-income investment arm that is consistently outperforming market indices with the help of innovative investment strategies and a dynamic trading approach.

"Markets are inefficient, and we are very active managers – our investment philosophy is to try to discover the inefficiencies and ensure the portfolio will benefit," says Paul Abberley, director and head of fixed income at Lombard Odier in London. He adds that "inefficiencies are dynamic, they constantly change. It's not realistic to build a model – you need human judgment to evaluate them."

Lombard Odier London was set up in 1978 to provide specialist fund management services to institutional investors in separate bond and equity funds. The total amount of funds under management has grown to $7.2bn (of which $4.5bn are invested in fixed income) from around $2.5bn in December 1990.

The fund invests in about 20 OECD bond markets; including their currencies – which are managed as a separate asset class to enhance total return – that's 40 variables.

To cover all this ground, Lombard Odier set up a team of 10 investment professionals specialising in three areas. Paul Abberley sets long-term strategy on a six- to nine-month fundamental view. A tactical group of four fine-tunes the long-term strategy and carries out microwork: picking sectors, carrying out yield-curve analyses, issue selection, and executing trades. The remaining five are members of the portfolio management group, who, taking into account long-term strategy, input from the tactical group and client parameters, build efficient portfolios to ensure investment performance.



Paul Abberley: 'the fine-tuning adds to the turnover'

The bond team uses a multistrategy approach, consisting of "top-down" analysis of macroeconomic and political trends, supplemented through "bottom-up" sector- and security-selection. They place a heavy emphasis on fine-tuning which helps damp volatility and boost returns. Thus, while its overall long-term strategy remains constant, Lombard Odier's bond managers do a substantial amount of short-term trading within the overall long-term strategy, to optimise the portfolio's performance. In 1992, for example, their turnover for a UK pension fund was 325 per cent, including currency trading.

"This may appear high, but the level of turnover was not generated by inconsistent long-term strategy or by constant issue trading," says Mr Abberley. "Our commitment of resources in the tactical investment group simply allows portfolios to move quickly in times of short-term market instability."

Short-term trades might include a switch from gilts to eurosterling bonds of a similar maturity, or going short on one part of the yield curve and long on other sectors. This contrasts with more conventional bond fund managers, who might buy paper and sit on it for several months; while both houses might have the same long-term strategy, Lombard Odier may generate three times the turnover. "The fine-tuning adds to the turnover, but it also adds value," Mr Abberley says.

Amid the recent turmoil in world bond markets, he admits that "the first quarter of 1994 has been a very challenging period; we've had to deal with high volatility and a sharp correction in most markets – it's been a period where one is best off being defensive, rather than adding value."

To cope with these conditions, his team has moved away from directional bets, and has sought to shorten duration to reduce risk.

But protecting one's downside does not promote index outperformance. That's why they are increasingly looking to exploit relative, not absolute, value. This might involve spread plays between different markets. "It doesn't matter if yields are going up or down, as long as the spreads move your way," says Mr Abberley.

Derivatives form an intrinsic part of Lombard Odier's portfolio construction, where client guidelines permit. They can be used to replicate cash market strategies more cheaply than using conventional securities, and to hedge cash positions. Moreover, fund managers might use options to achieve risk-return configurations which are impossible to achieve in the cash market.

Ultimately, "fund managers are constantly driven by the twin forces of hope and fear: hope that their losses will abate, and fear that their gains will will be eroded," says Mr Abberley. This too often leads them to take profits earlier than they should, or to hold on to loss-making positions longer than they should. Fund managers "should train themselves to fear the losses and to run with the gains".

Lombard Odier's bond funds have consistently outperformed market indices recently. In 1993, its US dollar-based Global Fixed Income Fund posted a return of 22.08 per cent, compared with a 12.26 per cent rise in JP Morgan's global government bond index (traded). This compares with the industry average of 14.65 per cent, according to data from HSW, a fund performance measurement company.

In the three years to December 1993, Lombard Odier's global bond fund posted a 49.40 per cent return versus 35.52 per cent on JP Morgan's index; over the past seven years it gained 147.58 per cent, against 93.25 per cent on the index.

Conner Middelmann

FINANCIAL TIMES
COMPANIES & MARKETS
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Thursday May 26 1994

IN BRIEF

Iberia negotiates with Lufthansa

Iberia, Spain's state-owned national airline, is negotiating a wide-ranging commercial agreement with Germany's Lufthansa. Page 20

France to sell insurer stake
The French government is planning to float a substantial part of its stake in Caisse Nationale de Prévoyance, the state-owned life insurance group. Page 18

Repsol plans international offering
The Spanish government is to make an international offering of Repsol shares that could raise between Pta200bn and Pta300bn ($1.4bn to $2.2bn). Page 18

Paper producers grab power
A spate of proposed price increases has firmly tilted the balance of power in North American and European pulp and paper markets. Page 20

Kumagai Gumi reports a decline
Kumagai Gumi, the Japanese property developer and construction company, reported a 20.56 per cent decline in taxable profits. Page 21. Japanese drugs companies saw sluggish profits for the year to last March. Page 22

Managers, derivatives and the Bank
Senior US company managers needed to understand and control the risks of derivatives, Mr Brian Quinn, the Bank of England's executive director of banking supervision, said. Page 23

Courtaulds sees rise in markets
Courtaulds, the UK chemicals and fibres group, said it was seeing recovery in some of the markets hit by last year's credit squeeze in China. Page 24

UK property rise underlined
The scale of the recovery in the UK property investment market was yesterday underlined by a 34.3 per cent rise in the net asset value of Land Securities, the UK's largest property company, over the year. Page 24

Argyll falls 13%
Depreciation charges, tough competition and a poor performance at its Lo-Cost discount chain combined to produce a 13 per cent fall in pre-tax profits at Argyll Group, the UK's third-largest grocery retailer. Page 25

Vosper Thornycroft advances 13%
Vosper Thornycroft Holdings, the UK shipbuilding and engineering group, increased annual profits by 13 per cent. Page 26

Carlton celebrates
Mr Michael Green, chairman of the UK's Carlton Communications, celebrated a 33 per cent rise in interim pre-tax profits. Page 27

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Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
AG Ind & Verk	580	+	21.5	[illegible]	528	+	28
[illegible]	330	+	15	SLIC	880	+	50
Leifheit	710	+	45	**Falls**			
Falls				Bancaire Comp	580	-	19
Metallges	231	-	29	Imetal	581	-	20
Phb	229	-	12.5	Valeo	1312	-	48
Porsche	782	-	35	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises				Enesu	455	+	35
Compaq Comp	119¼	+	2¾	Mitsuba Elec	1130	+	50
[illegible]	53⅞	+	⅞	Nihon Kogaku	768	+	59
Storage Tech	33¼	+	1¼	[illegible]			
Falls				[illegible]	481	+	35
[illegible]	23⅝	-	1⅝	[illegible]	678	+	48
Hewlett-Pack	79⅝	-	2⅝	**Falls**			
Intl Game Tech	21⅝	-	⅝	[illegible]	1050	-	90
PARIS (FFr)							
Rises							
Eiffel Int	705	+	35				

New York prices at 12.30pm.

LONDON (Pence)							
Rises							
CIA	168	+	8	[illegible]	15	-	4
Capital Group	148	+	7	Euro Disney	344	-	39
Johnson Group	282	+	10	[illegible]	393	-	42
Kelsey Inds	288	+	8	MAI	248	-	13
[illegible]	318	+	10	NSM	153	-	14
Racal Elec	238	+	13	Poseidon	505	-	28
T & S Stores	193	+	7	Portals	765	-	30
Waste Management	555	+	12	Rank Org	380	-	25
Falls				[illegible]	144	-	19
Carlton Comms	807	-	22	Utd Newspapers	585	-	25
Greenalls	185	-	30	Willis Corroon	180	-	12
Crockfords	140	-	9	[illegible]	184	-	14
[illegible]	35	-	5				

Bankers Trust cuts credit to Austrian bank

By Patrick Harverson in New York and Ian Rodger in Vienna

Bankers Trust of New York and five other international banks have withdrawn credit lines from Bank für Arbeit und Wirtschaft (Bawag), a leading Austrian bank under investigation for irregular offshore investment practices.

Bankers Trust said it withdrew a $100m line of credit from Bawag last week because it was uncomfortable with the bank's dealings with a Bermuda-based hedge fund operation run by Mr Wolfgang Flöttl, the son of Bawag's chief executive, Mr Walter Flöttl. The credit line was used to cover Bankers Trust's exposure in its foreign exchange trades with Bawag.

Meanwhile, a confidential interim report by investigators from the Austrian National Bank named five other international banks – Crédit Lyonnais and Paribas of France, Commerzbank and BHF of Germany and Republic National Bank of New York – as having withdrawn credit lines from Bawag.

Austrian news magazines revealed last month that Mr Walter Flöttl had secretly directed up to Sch22.9bn ($2bn), more than a tenth of the bank's total balance sheet, to offshore investment companies controlled by his son. The bank, which had been carrying out these operations for more than six years, subsequently repatriated the entire amount.

Mr Tom Parisi, head of public relations at Bankers Trust, said that in spite of the repatriation, "we felt that the credit profile of the bank had been adversely affected by this exposure to the hedge fund".

Noting that Bawag's executive committee had not been fully informed of the loans to companies run by Mr Flöttl's son, and that a large part of Bawag's earnings seemed to have been derived from this activity, Mr Parisi said: "We just didn't like the smell of it."

The Austrian central bank investigators concluded that the liquidity of the bank left "no grounds for concern", but they could not yet confirm "whether Bawag has any further financial obligations resulting from these credit transactions".

Mr Erwin Schmidbauer, director of financial markets at the Austrian National Bank, said that supervisors might have discovered the irregularities sooner if international fund flow statistics compiled by the Bank for International Settlements were more precise. In particular, he wished that the Bank of England could separate out Channel Islands bank exposures.

Background, Page 18

Nokia plans to raise FM2bn in new equity issue

By Christopher Brown-Humes in Stockholm

Nokia, the Finnish telecommunications group, yesterday announced plans to raise more than FM2bn ($370m) of new equity in the biggest international share issue by a Finnish company.

Up to 6m preferred shares will be offered, increasing total outstanding shares to 74.9m. At yesterday's closing price of FM410, the issue would be worth more than FM2.4bn.

The offer could take foreign ownership in the group above 50 per cent. About 46 per cent of the company's capital is held overseas, compared with 20 per cent a year ago. Around 90 per cent of the shares will be targeted at non-Finnish institutions, the rest being offered on the domestic market.

Most of the international offer will be directed at the US, where the company plans to list its preferred stock, in the form of American Depositary Receipts, on the New York Stock Exchange. Mr Jorma Ollila, president, said Nokia would be the first Finnish company to list on the New York Stock Exchange.

The funds would be used to finance the group's rapidly growing telecoms and mobile telephone businesses and to strengthen its balance sheet. Gearing would be cut from 52 per cent at the year-end.

It will be the group's second big share issue in a year: it raised FM918m last summer.

The buying has been driven by a sharp improvement in the group's performance, which last year brought pre-tax profits of FM1.15bn after a FM158m loss in 1992. The company, the world's second biggest supplier of mobile telephones after Motorola of the US, has seen huge growth in the sales of mobile and fixed telephone equipment. Its share price has risen five-fold from FM82 at the beginning of 1993.

Nokia intends to launch the issue during the summer, but is seeking shareholder approval at an extraordinary general meeting on June 23. Its shares fell FM21, or nearly 5 per cent, on yesterday's announcement.

Metallgesellschaft shares fall 15% on fresh provisions

By David Waller in Frankfurt and Laurie Morse in Chicago

Shares in Metallgesellschaft dropped 15 per cent yesterday following the disclosure on Tuesday night that the Frankfurt-based group will have to make fresh provisions to cover newly identified risks arising from its oil operations in North America.

The group's shares fell DM40 to DM220, still well above the low of DM175 to which they slid in the wake of Metallgesellschaft's DM3.4bn ($2bn) rescue package in January.

The metals, mining and industrial group refused yesterday to put a figure on the new provisions. In its statement on Tuesday it said it planned to sell its 80 per cent stake in the Buderus engineering company and other assets to finance the new provisions and cover the costs of further restructuring in German smelting.

Buderus made pre-tax profits of DM133m last year on sales of DM2.77bn. A manufacturer of heating equipment and other building products, it has a market capitalisation of DM1.6bn, valuing Metallgesellschaft's 80 per cent stake at DM1.28bn.

"Metallgesellschaft's problems were meant to have been cleared up," said one analyst, who predicted that the provision could amount to DM1bn or more.

Metallgesellschaft said the new provisions arose as a result of contracts made between MG Corp, a Metallgesellschaft subsidiary in New York, and Castle Energy Corporation, an oil refinery in which MG Corp owns a minority stake.

This has no connection with MG Corp's oil futures trading which incurred total losses of DM2.3bn in 1993-94, bringing Metallgesellschaft to the brink of bankruptcy earlier this year.

Castle Energy is a creature of MG Corp's making, a project crafted by Mr Siegfried Hodapp, MG Corp's former chairman. Mr Hodapp and other MG Corp executives controlled the Castle board, transforming the Pennsylvania-based company from a provider of advice on oil and gas partnerships to an oil refining operation.

MG Corp agreed to buy virtually all Castle's refinery output at prices above the existing market.

These contracts, unusual by oil industry standards, triggered the need for further risk provisions. MG Corp and Castle are contesting the terms of the contracts.

GM is using Opel as a springboard for global growth, writes **Kevin Done**

Making its marque all over the world

General Motors is using its German subsidiary Opel to spearhead its expansion into international car markets outside the US.

While its domestic North American automotive operations have racked up four years of heavy losses, GM has opted to use its much healthier European car business as its springboard for geographic expansion.

GM Europe's agreement to establish a joint venture in India to assemble the Opel Astra is the latest in a series of moves by the world's leading vehicle maker to gain a foothold in emerging car markets.

Opel products have been in the forefront of GM's effort to set up assembly in Turkey and eastern Europe – the Astra small family car is produced in Hungary and production is due to begin in Poland. They are also leading the drive to build GM's presence in Asia.

Assembly of the Opel Astra began in Taiwan last year, small volume production of the Opel Vectra large family car will start in Indonesia later this year, to be followed by production of the Astra in India from the third quarter of 1995.

Mr Louis Hughes, executive vice-president of GM's international operations and president of GM Europe, says that the group "has made a strategic decision to further internationalise and expand the Opel name and Opel products around the world".

The world's biggest carmakers are united in the view that the Asia/Pacific region holds the brightest prospects for growth. Car sales in Asia (excluding Japan) are expected to triple during the next 15 years.

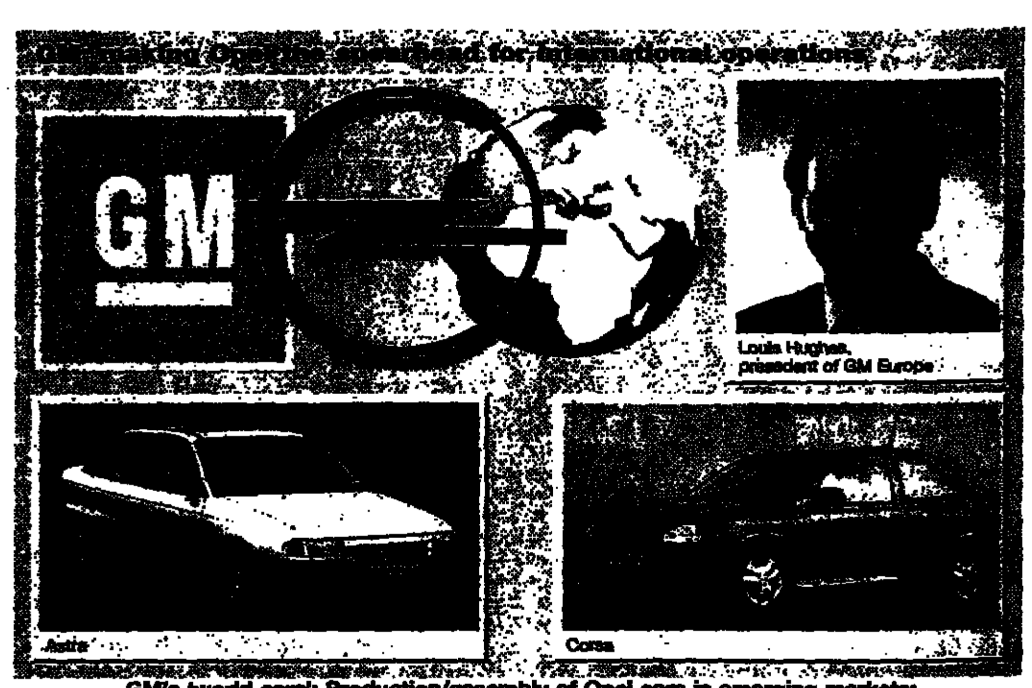
According to Mr Alex Trotman, chairman and chief executive of Ford, GM's rival, 80 per cent of the world's population lives outside the traditional automotive markets of western Europe, North America and Japan.

The number of cars and trucks sold in these regions, however, represents only about 8 per cent of the global total.

This view is confirmed by the latest study of world car markets released by DRI McGraw-Hill, the London-based automotive analysts, which forecasts that new car sales worldwide will rise from 33.2m last year to 42.5m in 1999, a near 30 per cent jump. The DRI report cites South Korea, China, Thailand, Latin America and eastern Europe as offering the best growth prospects.

For a long time US vehicle makers – as well as the Europeans – neglected Asian markets, allowing them to become largely the preserve of their Japanese rivals. Belatedly they are seeking to regain lost ground.

"We are number two in Europe and in Latin America and our sights are zeroed in on growth in Asia and the Pacific," Mr Jack Smith, GM chief executive, told the group's shareholders last week.



Louis Hughes, president of GM Europe

GM's 'world cars': Production/assembly of Opel cars in emerging markets:

	Corsa:	Astra:	Vectra:
Existing:	Brazil	Hungary, Taiwan,S Africa, Turkey	Brazil, Turkey, Egypt, Malaysia
Planned:	Mexico	Poland, India, Thailand, Indonesia	Indonesia, Thailand.
Possible:	China, Russia		

Other ventures under study: Philippines, Pakistan, Colombia, Venezuela, and Zimbabwe.

While Ford has embarked on an ambitious strategy of merging its North American and European operations to try to eliminate duplication and lay the foundations for developing more so-called "world cars", GM has chosen to lead its international operations from Europe with the aim of integrating its European, Latin American and Australian engineering activities.

Most of the products to be sold in these regions, as well as in Asia, will originate from the Opel technical development centre in Rüsselsheim, near Frankfurt, and will be developed from the European product range.

Mr Hughes describes the Opel Corsa supermini as GM's most international car. Already in production in Spain, Germany and Brazil and planned for Mexico, GM is also studying possible Corsa assembly in China and Russia.

Apart from building a network of Opel assembly plants across Asia, GM is also increasing exports of cars from Europe. Opel is being used as the group's main marque in Japan, where GM has set a target of selling 100,000 cars a year by 2000.

It has taken advantage of the conflict between the Volkswagen group and Yanase, the VW/Audi importer in Japan, to win over the Yanase dealer network for Opel.

Sales of Opel cars in Japan jumped last year to 17,042 from only 1,371 in 1992. By contrast VW/Audi sales plunged to 24,878 from 42,083.

"In the last four to five years Opel has gone from being very much a Europe-oriented carmaker to an international company with global export sales and local assembly and manufacturing. Our intent is to get ever more aggressive," says Mr Peter Hanenberger, GM Europe vice-president for design, product and manufacturing engineering.

While the thrust of the GM Europe-led expansion has been outside North America, signs are emerging that GM eventually plans closer co-ordination between Opel and its North American automotive operations.

GM Europe is developing a version of its recently launched Opel Omega executive car for sale in North America under the Cadillac brand name.

This will be the US carmaker's first substantial export of cars from Europe to North America since the early 1960s, and the first European-produced GM car to be sold under a North American nameplate.

It is an important step in the globalisation of GM's vehicle development and engineering, which is seen as a way to cut costs and make better use of worldwide resources.

The process can also happen in reverse. GM is planning for the first time to export to Europe a version of its next generation US-produced MPV (multi-purpose vehicle) for sale under the Opel/Vauxhall badges, to compete with vehicles such as the Renault Espace.

According to Mr Smith, the programme for a European-produced Cadillac is "one of the most significant international projects GM has undertaken... It makes little sense to build duplicate components or near-duplicate platforms [chassis] for different regional market segments, when one region can adapt or tailor what is being developed for another."

Warburg names the heirs to its top roles

By Norma Cohen, Investments Correspondent

S.G. Warburg, the UK-based investment bank, yesterday put to rest speculation about the succession of the firm's top management, saying its chief executive Lord Cairns, will succeed chairman Mr David Scholey when he retires in 1995.

There will be no new chief executive: Lord Cairns, with the title of executive chairman, will fill both roles. This is a departure from recommended best practice for corporate boards which urges separation of the roles.

Meanwhile, Warburg also said that its 90-year old co-founder and senior president, Mr Henry Grunfeld, would no longer hold that position from next year. Mr Grunfeld, who emigrated to Britain in 1934, founded the original New Trading Company with the late Mr Sigmund Warburg.

The announcement came as Warburg revealed record profits of £297m ($445.5m) for the year to March 31, despite a 40 per cent rise in salary costs and a slowdown in trading profits in the second half.

Mercury Asset Management, Warburg's 75 per cent-owned fund management arm, reported a 33 per cent jump in pre-tax profits to £109.5m, despite a 30 per cent rise in operating costs following increases in performance related pay and staffing.

MAM also said it had provisionally agreed to buy the 50 per cent of the Geneva-based Bank S.G. Warburg Soditic A.G. it does not already own. It will pay £48.3m cash, roughly twice the sum paid to S.G. Warburg for the first 50 per cent in 1990.

Lex, Page 16; Details, Page 25

French government to sell stake in insurance group

By John Ridding in Paris

The French government is planning to float a substantial part of its stake in Caisse Nationale de Prévoyance, the state-owned life insurance group, within the next few months, Mr Edmond Alphandéry, the economy minister, said yesterday.

He indicated, however, that the sale of shares in the insurance group would represent only a partial privatisation and that state institutions, including the Caisse des Depots et Consignations, would retain majority control.

The French government holds about 43 per cent of the shares in CNP, the country's largest life insurance group with annual turnover of about FFr64bn ($11.35bn).

According to the economy minister, the French government will relax its influence over Crédit National, the private sector bank which was established in 1919 to help finance reconstruction after the first world war. Mr Alphandéry said the government would surrender its right to appoint the chairman of the bank and its power of veto over board decisions.

The announcement comes as public sector companies are bracing for a round of musical chairs. Between now and the end of September, 27 public sector chairmen will see their mandates expire. Many of the most important posts are unlikely to be affected because of recent appointments. These include Mr Jean Peyrelevade, at Crédit Lyonnais, and Mr Loïk le Floch-Prigent, who was moved last year from Elf Aquitaine to the head of Gaz de France.

Question marks remain, however, over Mr Alain Gomez, chairman of Thomson, the electronics group, and Mr Jean Gandois, head of Pechiney, the aluminium group. Both are keen to retain their posts but Mr Gomez has already had his mandate renewed three times, the legal limit, and Mr Gandois is approaching retirement age.

Ciga suffers L200bn net loss

By Andrew Hill in Rome

Ciga, the Italian luxury hotels chain, yesterday announced a net consolidated loss for 1993 of L200bn ($126m), weighed down by the heavy cost of financing more than L1,000bn of debt.

Net financial charges reached L149bn, against L196bn in 1992, but overall debt grew from L972bn at end-1992 to L1,102bn at end-1993.

Having been courted by ITT Sheraton of the US and Forte of the UK, Ciga has now gained a fragile independence following the unexpected success of a L1,003bn rights issue.

The L1,000-a-share issue was expected to fail, delivering a majority of shares to Ciga's creditor banks and then to ITT Sheraton, which had offered L740 a share for the company.

Ciga has now started direct negotiations with creditors to reduce its debt, most of which is short-term. Talks are likely to take some weeks.

The rights issue means that Ciga is no longer controlled by Fimpar, the Aga Khan's holding company.

Attention is now focused on the shareholder assembly called for June 24 or July 6, at which new investors could press for board changes.

● Snam, the gas distribution subsidiary of Eni, Italy's state-owned energy and chemicals group, made net profits in 1993 of L127bn, against L139bn in 1992. Sales rose to L12,011bn from L10,807bn.

The volume of methane gas sold during 1993 increased 3 per cent to L49.7bn cubic metres, just under half of which was sold in the household sector and 17.9bn cubic metres to industry.

Euris gets go-ahead to take stake in Moulinex

By Alice Rawsthorn in Paris

Moulinex, the ailing French household appliances group, yesterday took a step towards completing its financial restructuring when its shareholders voted to allow Euris, an investment consortium, to take a stake in the company.

The shareholders, who are dominated by Moulinex's employees and founders, were presented with offers from two prospective shareholders – Euris, a group of French investors led by Mr Jean-Charles Naouri, a financier, and Glen Dimplex, an Irish business which is one of Moulinex's closest competitors with the Morphy Richards brand.

Euris had long been the favourite. Moulinex's workforce voiced concern earlier this year at a stake being sold to Glen Dimplex, on the grounds that it could lead to redundancies.

However, last Tuesday shareholders postponed the meeting at which they were scheduled to vote on the two offers. Despite this delay the Euris bid carried the day when the shareholders eventually met yesterday afternoon.

Moulinex now intends to finalise a FFr1bn rights issue.

Moulinex warned earlier this week that its losses had deepened in its last financial year to March 31. Moulinex then sustained a net deficit of around FFr550m (including provisions of FFr500m) against a net loss of FFr115m on FFr8.22bn ($1.43bn) sales in the previous year.

Bawag spotlight shifts offshore

Ian Rodger explains how the Austrian bank bolstered its earnings

Austrian bankers have marvelled for years at how Bank für Arbeit und Wirtschaft (Bawag), the country's third largest bank, has been able to achieve high growth and high profitability.

The bank, controlled by Austria's trade unions, has nearly doubled its total assets in the past decade to Sch220.3bn ($19bn), and raised its market share in the savings deposit field from 2 per cent to just over 6 per cent.

Over the same period, its operating profits have jumped more than six-fold to Sch1.45bn last year.

In the past few weeks, as investigations into offshore investment structures operated secretly for several years by the bank's chief executive and his son have progressed, the explanation for this exceptional performance has become much clearer.

The bank has confirmed that up to a third of its profits came from these offshore activities.

The full scope and nature of these activities has still not been uncovered. But Mr Walter Flöttl, the Bawag chief executive, has admitted that for more than six years he has directed some Sch22.9bn, a 10th of the bank's balance sheet, to offshore companies controlled by his son, Wolfgang, a high-rolling Wall Street trader.

In a statement last week, Mr Walter Flöttl spoke vaguely of "direct loans, indirect loans and securities" arranged by Ross Capital Markets, a private Bermuda based company controlled by his son.

Bawag has also confirmed that the investments included collateralised bond obligations, while Bankers Trust of New York, which last week withdrew a $100m credit line to the bank, said it was unhappy with Bawag's dealing with a Bermuda based hedge fund.

Mr Flöttl, a 70-year-old icon of Austrian banking, angrily rejected accusations that he exposed the bank to unacceptably high risks. "If we had in fact been involved in such risky activities, we could not have had an unbroken six-year record of profits." Loans were granted only against excellent collateral, he claims.

He also defended the connection with his son. "We had no branch in New York and for this reason, we used specialised firms which we could trust. Precisely because the son of the chief executive was the director of these firms we were able to build such a business relationship," Mr Flöttl said.

The bank's supervisory board and the Austrian government's banking supervisors had been unaware of these operations for most of the past six years, while its auditors, KPMG Austria Wirtschaftsprüfungs, appear to have been satisfied with imperfect explanations.

He has not answered other, more pointed, questions. If the operations were safe and produced such high returns, why has he closed them down? And why has Bawag been less than forthcoming in dealing with questions from central bank investigators and journalists?

(The FT submitted questions early this week in writing, as requested by Bawag, but has not yet received replies.)

At a time when banking authorities and investors everywhere are increasingly worried about big banks' investment policies, observers wonder how the conventional control mechanisms could have been circumvented for so long.

Austrian bankers have pointed out that the amounts involved were more than double Bawag's own capital. If something had gone wrong, the bank could have been wiped out.

When the scale of the Flöttl offshore operations became known in April, the Austrian National Bank sent in a four-man team to investigate. The FT has obtained a copy of the team's confidential interim report submitted on May 11.

While it confirms that all the bank's capital has been repatriated, the investigators admitted that they were still far from having a complete understanding of what had gone on.

"No final verdict can be given at this point on the question of whether Bawag has any further financial obligations resulting from these credit transactions."

They chased down one loan file where the credit rose from $45m in 1992 to $58.8m last year, but on which no written contract existed.

Austrian banking supervisors are embarrassed by the whole affair. They admit that it exposes not only failures of the bank's own risk management and internal audit functions but also lacunae in the regulatory apparatus.

Only from this year will Austrian banks be required to publish full consolidated accounts. And, as in most countries, there is as yet no regulation of off-balance sheet activities.

Mr Erwin Schmidbauer, director of financial markets in the Austrian National Bank, said the central bank first noticed that Bawag was up to something unusual last year by studying Bank for International Settlements (BIS) bank exposure statistics.

Mr Schmidbauer also said suspicions would have been aroused much sooner if the Bank of England separated exposures to the Channel Islands from those of the UK as a whole.

The Austrian authorities emphasise that Bawag remains a sound and liquid bank. However, investigations into transgressions of banking regulations and Bawag's own internal rules will probably cramp its style for some time.

As for Mr Flöttl, his contract expires next year, and no one expects it to be renewed.

Lasmo accuses bid predator

By Peggy Hollinger in London

The battle for control of Lasmo shifted gear yesterday as the UK oil explorer accused its rival and predator Enterprise Oil, which has made a £1.4bn ($2.11bn) all-paper bid, of flattering profits with unacceptable accounting practices.

Mr Rudolf Agnew, Lasmo chairman, alleged in a letter to shareholders that Enterprise Oil breached UK accounting practices in treatment of several acquisitions. Earnings will have benefited by up to £650m over the life of the asset, as a result, he said.

Founders cede control of French advertising firm

By Alice Rawsthorn

Boulet Dru Dupuy Petit (BDDP), the French advertising group, yesterday ended a long struggle to retain its independence. Its four founders announced they were ceding control of the company to a consortium of institutional investors in a FFr700m ($124.1m) rescue package.

BDDP, which has expanded rapidly to become one of France's largest advertising agencies since its creation 10 years ago, has come under intense pressure during the recession. It has been searching for capital to reduce its debt for some time.

The deal means the four founders, led by Mr Jean-Claude Boulet, chairman, will now own 15 per cent of the group, rather than their current combined share of 55 per cent. The rest of the equity will be divided between ESI, an investment fund, and a group of banks including Banque Nationale de Paris and Crédit Lyonnais.

After the restructuring, BDDP's debt will be reduced to FFr300m from FFr1bn.

Probe into Steyr share trading

Austria's state prosecutor is investigating alleged insider dealing in the shares of Steyr-Daimler-Puch, the motor group, writes Ian Rodger.

It is the first investigation since insider trading became illegal last October.

Steyr shares rose 14.5 per cent after it decided to increase co-operation with the German tractor maker, Klöckner-Humbold-Deutz und Fendt.

Spain to make offering of Repsol shares

By Tom Burns in Madrid

The Spanish government is to make an international offering of Repsol shares in the last quarter of this year that could raise between Pta200bn and Pta300bn ($1.4bn to $2.2bn), Mr Oscar Fanjul, chairman of the state-controlled energy and chemicals group said yesterday.

The size of the offer suggests that INH, the state's energy holding company, is considering reducing its present 41 per cent stake in Repsol to close to 20 per cent. Mr Fanjul said he expected INH to decide in the near future the extent of the offer.

Last year, INH realised Pta110bn when it reduced its equity in Repsol from 54 per cent to 41 per cent through an international placing.

Repsol is at present completing the acquisition by Gas Natural, its gas distribution subsidiary, of Enagas, the fully state-owned monopoly supplier of industrial gas.

Gas Natural, which is 45 per cent owned by Repsol, is likely to pay about Pta80bn for Enagas's main business and will have the option to acquire a Pta300bn pipeline being built linking Spain, via Morocco, to Algeria's natural gas fields.

Mr Fanjul said the acquisition would be announced shortly after final details on pricing and consumption had been resolved between Enagas and Spain's electricity utilities.

The main obstacle to the acquisition had been Enagas's commitment to the 1,265km pipeline which Gas Natural was unwilling to undertake. This has been resolved by the creation of a separate public company, Sagane, which will build the pipeline.

Repsol has the option to buy Sagane from INH, the company's present owner, when the pipeline becomes operational.

The acquisition of Enagas completes a 10-year long diversification by Repsol into the domestic gas business. Gas Natural controls 41 per cent of natural gas sales in Spain. After the takeover, it will have close to 90 per cent.

Gas Natural's contribution to Repsol's operating income rose from 9 per cent in 1989 to 25 per cent last year.

Repsol increased its 1993 net profit by 11.4 per cent to Pta80.1nbn and its first-quarter net profit this year by 11.6 per cent to Pta46.4bn.

Iberia, Lufthansa in talks on closer co-operation

By Tom Burns in Madrid

Iberia, Spain's state-owned national airline, is negotiating a wide-ranging commercial agreement with Germany's Lufthansa.

The talks form the third leg of a series of preliminary agreements also involving United Airlines of the US. The US carrier has already announced co-operation pacts with both Lufthansa and Iberia.

A senior Iberia source said the aim of the Lufthansa talks was to establish as close a co-operation on routes, ticket sales and promotion as is allowed by the European Unions' anti-cartel limits.

A share swap between the two national carriers was not a "primary objective", the source said, and "would not, in any *case, occur in the short term*".

Iberia sees Lufthansa as its ideal European partner because the routes of the two airlines, weighted towards east Europe and the Middle East in the case of the German airline and Central and South America in Iberia's, are complementary. The airlines share historic bonds going back to the 1920s.

The Lufthansa agreement will make little impact on Iberia's balance sheet but it could bring additional business to its hub it operates in Miami and to destinations in the Caribbean and Central America. The hub has incurred heavy losses. The source said a decision would be taken at the end of the year on whether to sell it to United Airlines.

The Spanish carrier is also hoping to dispose of part of its 80 per cent shareholding in Aerolineas Argentinas.

Iberia hopes to halve its losses this year to around Pta30bn ($220m).

SAS forecasts full-year profit

By Christopher Brown-Humes

Scandinavian Airlines System said yesterday it was on course for its first profit in five years following a dramatic improvement in its first-quarter figures.

Although the airline remained in the red, pre-tax losses fell to SKr101m ($13.07m) from SKr1.53bn. The result reflected higher traffic volumes, cost-cutting, exchange gains and lower interest costs.

The airline expects the improvement to continue, despite intense competition, as the second and third quarters are traditionally stronger than the first. Confidence is based on an improving traffic trend and the impact of tough restructuring.

First-quarter group revenues were SKr8.99bn, compared with SKr8.67bn, while operating losses after depreciation were cut to SKr84m from SKr651m.

All business units showed better results, but the improvement was felt most in the core flying operations. Traffic was 5 per cent higher and yields were up 3 per cent.

There was also a much better financial performance. The stronger krona produced a SKr200m unrealised exchange gain, compared with a SKr500m loss in the first quarter of 1993. Interest costs fell to SKr194m from SKr465m due to lower interest rates and a SKr2bn reduction in net debt since the start of the year.

Celsius opens with advance of 20%

By Christopher Brown-Humes in Stockholm

Celsius, the Swedish defence group privatised last year, yesterday announced a 20 per cent increase in first-quarter profits to SKr186m ($24.07m).

The group said rationalisation had driven the results from SKr155m a year ago, allowing it to compensate for reduced financial income.

An improved business climate and the group's emphasis on high technology niches enabled sales to reach SKr3.1bn, up SKr200m. The order intake rose to SKr2.5bn from SKr1.8bn partly due to the recent acquisition of Enator, a data technology group.

Operating profit more than doubled to SKr146m from SKr58m, even though the contribution from associate companies fell to SKr10m from SKr26m. Lower interest rates meant financial income was SKr57m lower at SKr40m.

The group predicted that its full-year result would exceed last year's SKr721m. It expects higher sales and increased efficiency to compensate for reduced financial income and a lower contribution from associate companies.

Paper producers win back power

By Bernard Simon in Toronto

A spate of proposed price increases has firmly tilted the balance of power in North American and European pulp and paper markets towards producers.

International Paper, the world's biggest paper company, based in Purchase, New York, last week announced plans to cut discounts on coated groundwood paper by about 7 per cent on July 1.

The planned price hike coincides with the peak ordering period for mail-order and Christmas catalogues. If implemented, it would be the first increase for this grade of paper in four years.

In the newsprint market, US and Canadian producers plan to cut discounts by between 6 per cent and 7 per cent on August 15, the second price increase this year.

Sizeable increases are also scheduled for linerboard and corrugating medium, used to make cardboard boxes. The proposed US$40 per ton hike for linerboard is the third – and biggest – since last October. It would bring the price to $385 per ton, up from $290 last autumn.

In Europe, producers of coated grades made from chemical pulp are pushing for a 10 per cent price rise on top of hikes of 15-20 per cent over the past six months.

Producers will not necessarily succeed in pushing through the full increases. Prices of some grades, such as tissue, remain weak.

But the size of the planned rises points to a more prolonged tightening in paper markets than most observers expected. "The situation could continue for a while," said Mr Mads Asprem, analyst at Morgan Stanley in London. Mr Asprem has backed away from forecasts that pulp prices will turn down this autumn.

Mr Ross Hay-Roe, analyst at Equity Research Associates in Vancouver, says that a combination of rising demand and shrinking capacity has brought the North American newsprint market into balance for the first time since 1988.

Mr Hay-Roe predicted in his latest market commentary that "there won't be enough newsprint to go around" if the US economy keeps growing.

The shift in bargaining power is illustrated by Fletcher Challenge Canada's decision not to renew a long-term newsprint contract with Times Mirror, publisher of the Los Angeles Times.

According to one paper consultant, Times Mirror, which gained a reputation as one of the toughest bargainers among buyers, has yet to find another supplier willing to provide long-term protection against further price increases.

Skopbank reduces operating loss 56%

By Christopher Brown-Humes

A big reduction in credit losses enabled Skopbank, the Finnish state-owned bank, to cut its operating loss by 56 per cent to FM216m ($39.95m) in the first four months from FM488m a year ago.

It expects to remain in the red for the rest of the year, although the 1994 deficit will be around half last year's FM1.6bn total.

The drop in credit losses to FM207m from FM526m reflected an improving Finnish economy and lower interest rates. Non-performing assets totalled FM2.27bn at the end of April, against FM3.97bn a year earlier.

The bank, the biggest casualty of the Finnish banking crisis, said income from financial operations fell to FM82m from FM117m due mainly to a FM33m loss on bonds.

Hydro-Quebec up 23% at C$643m

By Robert Gibbens in Montreal

Hydro-Quebec, one of Canada's two biggest electric power utilities earned C$643m (US$465.9m) in the first quarter, up 23.7 per cent from a year earlier, as harsh winter weather boosted domestic and export demand.

Electricity sales rose 8.4 per cent by volume and revenues 8.2 per cent to C$2.3bn. Sales in Quebec rose 3.8 per cent by volume and revenues by 6.4 per cent. A rate rise generated an additional C$32m in the latest period.

Revenues from power exports, mainly to the US, but also other provinces, were up 4.4 per cent to C$144m.

Spending rose 3.3 per cent largely because new generating and transmission equipment came on stream, increasing depreciation and amortisation.

Tight controls held operating costs steady, while taxes were up 7.5 per cent. The utility cut staff, controlled overtime strictly and began a pay freeze.

Hydro-Quebec, 100 per cent owned by the Quebec government, invested C$629m in the quarter, down from C$755m a year earlier. Total investment in 1994 will be C$3.86bn, against C$4bn last time, mostly for James Bay hydro expansion and for the distribution system. Many large projects are nearing completion.

The utility arranged a C$1bn global issue and total 1994 borrowing will be almost C$3bn.

Cancellation of a US export contract to take effect in 1999 will not affect the utility's construction programme. An existing 800 MW contract may be extended beyond 1998 expiry.

Russian carmaker secures $100m loan

By Chrystia Freeland

Avtovaz, the Russian carmaker which produces the Lada, yesterday signed a $100m medium-term loan facility from Standard Chartered Bank. The loan is the third Avtovaz has negotiated with western banks over the past year, bringing its total western borrowing to $350m.

Avtovaz, which produces *some* 7 per cent of Russia's GNP, was the first Russian manufacturer to borrow directly from western banks without Russian government guarantees.

Yesterday's loan is a seven-year revolving facility and is secured against Avtovaz's exports.

Mr Nikolai Glouchkov, deputy general-director of Avtovaz, said high inflation and interest rates in Russia compel domestic companies to seek western financing for medium or long-term infrastructure projects.

The transaction was structured and arranged by European Capital, a UK merchant bank.

Standard Chartered Bank is providing $100m to LM International Finance, a private Luxembourg company, jointly owned by Avtovaz, Mannai Corporation, a private Middle Eastern company, and Avtovazbank. LM International Finance will then lend the money to Avtovaz.

Finex Europe launch date set

By Antonia Sharpe

Finex, the financial futures and options division of the New York Cotton Exchange, is due to launch its European financial futures trading facility in Dublin on June 17, marking the first time that an exchange operates a complementary trading floor outside its home country.

The launch of the European trading floor, located in the recently-opened exchange facility in Dublin's International Financial Services Centre, will coincide with the introduction of currency cross-rate (D-Mark based) futures and options and dollar/D-Mark futures, which will be traded around the clock in New York and Dublin.

Finex has sold more than 75 Finex Europe permits at $10,000 each. The main buyers have been European financial institutions and futures brokerage operations in London, Chicago and New York.

Kumagai Gumi hit by investment decline

By William Dawkins in Tokyo

Kumagai Gumi, the internationally ambitious Japanese property developer and construction company, yesterday reported a 20.56 per cent decline in taxable profits and forecast worse to come.

Taxable profits, which have been hit by an unprecedented long decline in capital investment by Kumagai Gumi's Japanese industrial customers, fell to Y23.56bn ($224.38m) in the year to March, from Y29.65bn in the previous year.

Net profits fell even more steeply, after a higher-than-forecast Y33.56bn extraordinary loss on the cost of pulling out of poorly performing projects in Europe and Asia and the reorganisation of its south-east Asian businesses.

This brought net earnings down by 88 per cent over the year to Y1.09bn, or Y1.6 per share, from Y13.29 per share in the previous year. As a result Kumagai Gumi was obliged to slash its dividend from Y9 to Y3 per share. Directors, consequently, have given up their bonuses.

The result highlights the twin problem faced by several leading Japanese contractors, faced with a weak home market and losses on overseas developments undertaken during the fast growth in asset prices of the late 1980s.

Kumagai Gumi's formerly dwindling stock of new orders recovered slightly over the year, by 1.7 per cent to Y865.5bn. This was entirely due to a 10 per cent rise in public sector orders, responding to the government's public spending packages. Civil engineering contracts from the private sector dipped, the group said.

Sales fell by 21.9 per cent to Y842bn, due to a sharp decline in orders for office property and industry buildings and are expected to decline again this year, to Y840bn.

All this indicates that pre-tax profits will fall by 36.3 per cent to Y15bn in the current year, it warned.

Moreover, the group plans to sell another Y50bn of overseas holdings, reducing the total to Y440bn, on which it expects to book a Y23bn extraordinary loss.

Accordingly, net earnings in the current year to next March are forecast to fall by 8 per cent to Y1bn.

Of last year's Y33.56bn extraordinary loss, Y10.7bn comes from the sale of Thames Exchange in London, to Scottish Amicable, a UK insurance and investment group.

Another Y6bn was due to the sale of a stake in a Frankfurt property developer.

Sharp first-half improvement at ANZ Banking

By Nikki Tait

Australia and New Zealand Banking Corporation, one of the big four Australian banks, yesterday reported a sharp improvement in first-half operating profits after tax but before abnormal items, at A$363.8m (US$267.7m).

This figure compared with A$170.3m in the same period of the previous year, and A$289.4m in the following six months to end-September.

After abnormals, profits were unchanged in the most recent period, although they were reduced to A$72.1m in the corresponding period of the previous year.

Like National Australia Bank and Westpac, which reported interim figures last week, ANZ attributed the improvement to the recovery in the domestic economy and to declining bad and doubtful debts.

"The profit levels we are back to are reasonable and respectable, although that's not to say that there won't be further improvement," said Mr Don Mercer, ANZ's chief executive, yesterday.

ANZ's net interest income in the six months was A$1.39bn, up from A$1.23bn in the previous year. Other operating income rose from A$951.8m to A$1bn, while operating expenses increased by 3.3 per cent, to A$1.58bn. Specific provisions for bad and doubtful debts fell from A$377.4m a year ago, to A$220.5m, and ANZ's total non-accrual loans by end-March stood at A$2.86bn, compared with A$4.89m a year earlier.

This left operating profit before tax at A$570.8m, up from A$249.1m a year ago. On a divisional basis, ANZ reported good profits growth from its Australian and international operations. Profits in New Zealand declined, however, due to a competitive squeeze on margins, although Mr Mercer said that the performance in that country had been "very solid" under the circumstances.

Carlsberg posts 5% interim rise

By Hilary Barnes in Copenhagen

Carlsberg, the Danish brewer, increased first-half pre-tax profits by 5 per cent to DKr731m ($113m) in the six months to March 31, compared with the year-ago figure of DKr694m, but warned that the improvement might not be maintained in the second half.

The group attributed the improvement to better-than-expected performances by several of its breweries. However, Carlsberg-Tetley, its joint venture in the UK with Allied Lyons, was hit by falling beer consumption and a small loss of market share.

First-half group sales were ahead by 8 per cent to DKr7.87bn.

Carlsberg said that extensive restructuring plans were on schedule and would result in operating economies in coming years, which would more than offset depreciation and interest in the investments.

Ansett helps TNT maintain its rally

By Nikki Tait in Sydney

The turnround at TNT, the Australian transport and delivery services group, has continued in the third quarter, allowing the company to post an operating profit before abnormal items of A$28.9m ($21.26m) on an equity consolidated basis, for the nine months to end-March.

This compares with a loss of A$41.5m in the same period of 1992-93. Revenues during the period reached A$4.27bn, compared with A$4.07bn a year ago. The equity-consolidated operating profit before tax was A$104.3m, up from A$4.2m in the first nine months of 1992-93.

TNT said yesterday that the progress was largely due to improved earnings at Ansett, the Australian airline which it owns jointly with Mr Rupert Murdoch's News Corporation, and reduced losses from its GD Express Worldwide joint venture, the international express delivery business formed by TNT and a consortium of overseas post offices.

On a consolidated basis – ignoring the impact of associate companies – the picture looked less rosy: TNT's operating profit before tax appeared to have increased only marginally, from A$28.8m to A$30m. But the company said that the 1992-93 figure included "substantial" non-recurring profits and revenues resulting from TNT Leisure's involvement in Expo '92 and the 1992 Olympic Games. It said that there was an underlying profit improvement of A$19.7m at the pre-tax level, once this factor was removed.

TNT said that many of its operations, including those in Australia, North America, the UK and Germany, were seeing an improvement. The Italian business traded "in line with expectations" and TNT Chronoservice in France, continued to reduce losses. But Spain remained "disappointing", with increased losses.

Viag forecasts a full recovery by year-end

By Michael Lindemann in Düsseldorf

Viag, the German industrial conglomerate, yesterday said it was on the way to a full recovery following a 19 per cent drop in group profits to DM302m ($183.27) from DM371m the year before. The dividend will remain unchanged at DM9.

Mr Alfred Pfeiffer, chief executive, said profits in the first quarter of this year rose about 33 per cent and were expected to grow at the same level for the year overall. He said the group's industrial sectors, including aluminium and chemical units, were performing particularly well.

Viag said it was "confident" it would win the bid for a data transmission contract, due to be awarded by the post ministry later this month.

In July the company will complete its takeover of Bayernwerk, Germany's third-largest utility, for which it will pay the Bavarian government DM5.515bn, including a cash payment of DM2.3bn.

Viag said the deal was "not cheap", but "still pretty attractive" given Bayernwerk's annual pre-tax profits of about DM1bn and the high liquidity of the electricity generation business. The takeover of Bayernwerk will increase group turnover to about DM40bn, moving Viag into the top 10 German companies in sales terms.

Mr Pfeiffer said the company would still consider acquisitions to extend its chemicals unit but this would only happen once Bayernwerk had been fully consolidated.

Group turnover in 1993 fell two per cent to DM23.7bn, from DM24.3bn the year before, due to losses in the aluminium and packaging operations. The company has spent DM120m on redundancy costs for about 10 per cent of its workforce and said it would shed a further 4,000 jobs this year.

NEWS DIGEST

Poseidon Gold plans Aztec asset transfer

Poseidon Gold, the Adelaide-based metals group which earlier this year won a A$287m (US$211.15) bid battle for Aztec Mining, is proposing to transfer two of Aztec's assets to Normandy Poseidon, Posgold's parent, in exchange for A$62.5m in cash, writes Nikki Tait.

The assets involved are a 20 per cent interest in the Golden Grove joint venture project, and full ownership of the Woodcutters zinc mine, south of Darwin. Posgold had said it was putting the assets up for auction, but yesterday announced no outside bidders had emerged for Golden Grove and only one other interested buyer of Woodcutters.

Carter Holt ahead

Carter Holt Harvey, the forestry group which has interests in New Zealand and Chile, yesterday reported a 34 per cent rise in tax-paid profits to NZ$325m (US$191.16m), reflecting cost-cutting and efficiency measures over the past 13 months, writes Terry Hall in Wellington.

The chief executive, Mr David Oskin, said that during the coming year the company intended to extend its operations into offshore markets in Australia, Asia and South America and to take aim to become a leading force within the Pacific Rim area.

Operating earnings before interest and tax rose 55 per cent to NZ$588m.

Turnover was NZ$3,476m, against NZ$2,451m a year ago, and tax was NZ$90m, up from NZ$19m.

International Paper of New York manages Carter Holt Harvey and is the biggest shareholder with 24 per cent.

In March, Brierley Investments effectively wound down the joint venture which controlled the company by selling International Paper an 8 per cent stake. BIL retains 7 per cent.

Sankyo ahead in dull drugs sector

By Emiko Terazono in Tokyo

Japanese drugs companies saw sluggish profits for the year to last March, due to a fall in sales of antibiotics as the number of flu patients in the second half fell sharply from the previous year.

A steep fall in purchases ahead of the price cuts implemented last month by the ministry of health and welfare also affected sales during the six months to March.

Takeda Chemical Industries said unconsolidated sales fell in all units except its overseas medical drug division. Operating profits rose 5.3 per cent to Y66.8bn ($639m), due to a Y1.9bn cut in advertising expenses and a fall in prices of raw materials.

However, a fall in financial items hurt pre-tax profits and after-tax earnings rose 17.3 per cent to Y37bn.

Sankyo posted a firm non-consolidated earnings rise on the back of profits from Mevalotin, its antihyperlipedemic, in spite of an overall sales decline due to the transfer of its antiallergic cures to Sandoz. After-tax profits rose 30.6 per cent to Y36.9bn.

Parent sales at Shionogi declined due to a fall in antibiotic sales, but earnings rose thanks to cost cutting and streamlining its management personnel. After-tax profits rose 22.2 per cent to Y10.3bn as a result of a fall in corporate taxes.

Yamanouchi's sales were supported by strong demand for its stomach ulcer drugs. However, the fall in financial income due to lower interest rates depressed pre-tax profits. After-tax profits rose 1.5 per cent to Y27.6bn.

Earnings at Fujisawa were hit by the decline in antibiotic sales and sluggish exports due to the strong yen. Net profits, however, soared 71.8 times to Y100bn due to sales of its product rights and stake in Fujisawa-Astra, the joint venture with Astra, the Swedish drug group.

For the current year to March, the companies face a squeeze on sales and profits due to the government's official drug price cuts. The amount of drugs prescribed is likely to be hit due to stricter limits on consultation fees reimbursed to doctors by the health ministry.

Mr Yoshihide Yoda, pharmaceutical analyst at UBS Securities, forecasts a 5 per cent fall in pre-tax profits for the industry, while the size of the market is expected to grow by 2 per cent.

Takeda forecasts a 6.7 per cent fall in pre-tax profits while sales are expected to remain almost unchanged at Y565bn. Sankyo sees pre-tax profits rising 3.8 per cent to Y83bn on a flat growth in sales to Y396bn.

Shionogi expects earnings to fall 15.2 per cent to Y19.5bn on a 2.7 per cent decline in sales to Y224bn and Yamanouchi predicts earnings to remain almost flat at Y54.5bn on a 2 per cent rise in sales to Y265bn.

Fujisawa forecasts a 9.8 per cent rise in pre-tax profits to Y18bn on a 3.3 per cent rise in sales to Y227bn.

Japanese drugs companies results 1993-94 (Y bn)

Company	Sales	Change (%)	Pre-tax profit	Change (%)
Takeda	561.6	-0.6	77.2	-0.4
Sankyo	395.7	-0.8	80.4	+14.3
Shionogi	230.2	-3.6	23.0	+6.6
Yamanouchi	259.8	+6.6	54.4	-4.8
Fujisawa	234.9	-0.5	19.9	-12.3

Source: Company reports

Kanebo chiefs step down after losses rise

By Michiyo Nakamoto in Tokyo

Both the president and chairman of Kanebo, the Japanese cosmetics-to-textiles company, are to resign their posts following a much larger pre-tax loss and lower sales in the 1993-94 year compared with a year earlier.

The company said the two were taking responsibility for the company's poor performance last year and its decision to pass its dividend. The moves were aimed at winning employee co-operation for wide-ranging restructuring plans the company is likely to adopt in an effort to return to profitability.

Both men will stay with the company. Mr Masao Nagata, president, replaces Mr Kazutomo Ishizawa as chairman. Mr Ishizawa becomes honorary adviser. The senior managing director, Mr Soichi Ishihara, becomes president.

Kanebo suffered an 18 per cent drop in unconsolidated sales to Y418.9bn ($4bn), from a previous Y510.1bn, in the year to March 1994. Pre-tax losses ballooned to Y6.7bn from Y4.5bn, and the company fell into a net loss of Y3.7bn compared with a net profit of Y1.6bn in the previous year.

Sales had been depressed by the weakness of the Japanese economy with sales of textiles particularly hard hit by slow consumer demand for clothing since the Japanese economy plunged into recession.

Sales of textiles, which make up about 45 per cent of overall sales, dropped 22 per cent as the company was also hit by cheaper imports from Asian countries such as Pakistan, Korea, China.

The pharmaceuticals and new materials businesses held up but cosmetics, which accounts for 37 per cent of sales, made a loss. Foods, a smaller business for Kanebo, fell 57 per cent.

Efforts to restructure the business area under way. The company has introduced cost reductions, is keeping a lid on new recruitment and moving production overseas in a bid to improve profitability.

Kanebo forecasts higher sales in the current year at Y420bn, and larger pre-tax and net losses of Y9.8bn and Y7.5bn respectively.

Tepco surprises with profit rise

By Gerard Baker in Tokyo

Tokyo Electric Power (Tepco), the world's largest private sector electric utility company, reported a slight increase in pre-tax profits for the year to March 31. Unconsolidated pre-tax earnings were Y159.9bn ($1.5bn), up 1 per cent on the previous year, on turnover higher by 0.4 per cent at Y4,721bn.

The figures surprised analysts, who had expected a difficult economic and regulatory environment to be reflected in lower earnings. Last autumn, Tepco was required by the government to cut its charges to offset windfall gains caused by the appreciation of the yen. A large proportion of the company's costs are oil imports, which fell in price as the yen rose, and Tepco's tariffs were reduced by an average 1.6 per cent.

Higher demand brought on by a cold winter partially offset the impact of lower prices, but the overall effect was to depress operating profit by 2.5 per cent.

However, sharply lower interest rates boosted earnings at the pre-tax level. Like most utility companies, Tepco carries a heavy debt burden, and the steep fall in the cost of borrowing throughout the year cut interest costs.

A company spokesman said that debt service costs were around Y4bn lower than had been forecast at the half-year.

The company expects a difficult 1994. Last week the government announced that utility charges would be frozen for the coming year, and Tepco forecast a 12 per cent fall in pre-tax profits to Y140bn.

Sluggish earnings for JR East

By Emiko Terazono

East Japan Railway (JR East), the semi-privatised railway group, posted sluggish earnings figures for the year to last March due to a decline in revenue from its passenger operations.

Consolidated pre-tax profits fell 1.8 per cent to Y108.6bn ($1bn), on a 0.4 per cent fall in the group's revenue to Y2,343.35bn. After-tax profits fell 0.2 per cent to Y55.7bn.

The company said its poor performance in the railway operations eroded the gains from sales increases in its kiosks, travel agent and real estate leasing division.

On a non-consolidated basis, JR East posted a 0.6 per cent rise in pre-tax profits to Y101.5bn thanks to a Y20bn fall in interest payments due to lower interest rates. Revenues fell 0.3 per cent fall to Y1,974.35bn and after-tax profits fell 0.4 per cent to Y56.7bn.

For the current year to next March, the company expects consolidated pre-tax profits to remain almost flat, down 0.8 per cent to Y109.6bn, on a 6.7 per cent rise in sales to Y2,502.5bn.

NSK declines 20% to Y3.33bn

By William Dawkins in Tokyo

NSK, Japan's largest maker of ball-bearings, yesterday reported a 20 per cent fall in pre-tax profit for the 12 months to March, but forecast a slight recovery this year.

The group had to sell securities to keep its published earnings in the black, a technique used by many Japanese companies to tide them through the longest decline in operating earnings since the second world war.

NSK's taxable profits fell to Y3.33bn ($32m), on sales down by 8.4 per cent to Y325.16bn. The pre-tax profit includes a Y7.3bn capital gain from securities sales, said Mr Shunji Saigo, managing director.

Sales of bearings and parts to the car industry fell by 9 per cent and demand from the electrical and information equipment industry was poor, he said.

Earnings rose from Y4.47 per share in 1992 to Y6.43 last year. The dividend is to be cut from an uncovered Y7 per share to a barely covered Y6 per share.

In the current year, NSK expects pre-tax profit to show a small recovery to Y3.5bn, on sales up to Y330bn.

Japan Tobacco bucks trend with 10.9% rise

By William Dawkins

Japan Tobacco, the state-owned cigarette group aiming for privatisation this year, yesterday bucked the trend of a grim results season and reported a sharp rise in annual profits.

Taxable profits at the group, the world's third-largest tobacco company, rose by 10.9 per cent to Y110.45bn ($1.06bn) in the year to the end of March, mainly due to cost reductions, on sales up by 1.6 per cent to Y3,462bn.

The small increase in turnover reflects the fact that Japan's tobacco market, where Japan Tobacco holds an 83 per cent share, is mature. But the group has lowered its break-even point by cutting staff and reducing the number of outlets in a restructuring programme which began in 1985.

However, pre-tax profits for the current year are expected to stagnate at around Y110bn, said the group, on sales up slightly to Y3,500bn.

Wesfarmers offers A$275m for Bunnings

By Nikki Tait in Sydney

Wesfarmers, the Australian diversified rural products and services group, yesterday announced a A$275m-plus bid for the outstanding 51.9 per cent which it does not already own of Bunnings, the Perth-based forest products, manufacturing and merchandising company. The offer, which comprises a mixture of cash, shares and options, values the whole of Bunnings at more than A$535m (US$394m).

Under the terms of the bid, Wesfarmers is proposing to offer A$22.60 in cash plus two of its own shares and an option to subscribe for one Wesfarmers share at A$12.50 by end-December 1997, in exchange for every four Bunnings shares held.

It noted that this represented a premium over the average Bunnings market price of A$9.53 during the past month, and a "substantial increase" over the A$3.55 a share offer which Wesfarmers made for Bunnings back in February 1992. The news came after the stock market closed yesterday; Wesfarmers shares were down 6 cents at A$9.54, while Bunnings were 4 cents lower at A$10.16.

Wesfarmers, which first acquired an interest in Bunnings in 1987 and has had three board representatives since it raised its stake significantly in 1992, said it believed that Bunnings' future would "be enhanced by being a wholly-owned member of the Wesfarmers' group", although it would continue to treat Bunnings as "an independent business unit" with its own corporate identity.

Wesfarmers' earlier offer for Bunnings, in 1992, was rejected by the target company. Last night, Bunnings reacted cautiously to the new bid, saying that the offer would be discussed at a board meeting today.

Packer raises stake in winning casino rival

By Nikki Tait

Mr Kerry Packer, the Australian businessman who lost a joint bid to develop the new A$1bn-plus (US$736m) Sydney casino earlier this month, has raised his underlying interest in Crown Casino, the company currently developing the rival Melbourne property.

In a statement to the Australian Stock Exchange, Mr Packer's Consolidated Press said that a further 16.7m shares had been acquired, raising its interest, along with that of its associates, from 62.47 per cent to 67.33 per cent. The shares were bought at a price of A$1.49.

Ahead of the latest purchases, which were rumoured to have taken place earlier this week, ConsPress owned around 22 per cent of Crown, while its associate, Hudson Conway, owned 26.4 per cent. ConsPress also has an option over some further shares.

Crown won the right to build the A$750m Melbourne casino last year, which, when completed, will be one of the world's largest gaming properties with 200 tables and 2,500 machines.

The casino is being built on the banks of Yarra River, which flows through the Victorian city.

Mr Packer, who had teamed up with Circus Circus, the large US gaming group, was the surprise loser in the fight for the even larger Sydney casino development. His bid was beaten by the Leighton Holdings/Showboat consortium.

NSW State Bank sale details due in August

By Nikki Tait

An announcement on the future of the State Bank of New South Wales, the fifth-largest bank in Australia and due to be privatised by the state government, will be made in August, according to state treasurer, Mr Peter Collins.

He said that legislation, including the name of the bidder and the sale price, would be put before the state parliament in September.

The sale is proving troublesome, with many of the interested bidders pulling out of the bidding in recent weeks. Only one name is known to be left - Colonial Mutual, the insurance group - while Australia's four big national banks were barred from entering the auction at the outset.

Earlier this week, the NSW premier, Mr John Fahey, indicated that the government might be willing to delay the sale to get a better price.

However, Mr Collins denied yesterday that the government was backing down on the sale or planning to defer it.

INTERNATIONAL CAPITAL MARKETS

German auction withdrawal batters European prices

By Graham Bowley and Antonia Sharpe in London and Frank McGurty in New York

Germany led a sharp decline in European government bond markets yesterday after the withdrawal of an auction of short-dated German government bonds intensified doubts over further cuts in official interest rates in the near term.

The Bundesbank cancelled its auction of four-year 5.875 per cent bonds because of insufficient demand, the first time this has happened since September 1990. The next tender of four-year notes will be in August.

The Bundesbank's decision was taken badly by investors, whose confidence had been undermined earlier this week by cautionary comments by Bundesbank president Mr Hans Tietmeyer and data showing continued rapid growth in M3 money supply. Surveys showing an acceleration in Germany's economic recovery, and speculation that the Bundesbank would announce an auction of 10-year bunds early next month, added to the gloom.

GOVERNMENT BONDS

Mr Tietmeyer's comments on Monday, which suggested the market should not expect further interest rate cuts in the near future, were reinforced by comments yesterday from Bundesbank council member Mr Reimut Jochimsen that the recent high M3 growth posed an inflationary threat.

Although the Bundesbank's decision to cut its repo rate by only three basis points, to 5.20 per cent, was in line with most dealers' expectations, it still disappointed the market. The June Bund future on Liffe reached a new low for the year, of 93.30, before rising to 93.55 in late trading, down 0.69 point on the day.

The Bundesbank is due to meet today, but is not expected to take any action on interest rates.

■ The fall in bunds dragged down UK government bonds already depressed by the higher-than-expected price realised at the Bank of England auction of the government's first convertible gilt since 1987. In late trading, the June long gilt future on Liffe was down 1 5/32 at 103¼.

A tail of four basis points, the difference between the yield on the average and lowest accepted bids, was greater than had been expected, and reflected the wide range of bids.

The auction of the 7 per cent gilts due 1997, convertible into 9 per cent 2012 gilts, was covered 1.98 times. Analysts said this was a good result, given the uncertainty about the issue.

■ The heavy fall in bunds weighed on other continental markets, most of which suffered losses of around one point.

Italian futures were among the worst casualties, following news that more leading political figures had been ordered to stand trial in connection with illegal financing of political parties.

By late afternoon, the June Italian government bond future on Liffe was trading at 109.76, down 1.61 point, in heavy trading of more than 80,000 contracts.

In France, data providing more evidence the recovery is gathering momentum failed to support prices. On the Matif, the June notional French government bond contract fell as low as 118.82, before recovering to stand at 119.04 in the late afternoon, down 0.06 point on the day.

The Bundesbank's decision to cut only three basis points off the repo rate also depressed French bond prices – it rules out any easing by the Bank of France.

■ US Treasury bonds slipped yesterday morning in spite of a tame reading on orders of durable goods last month, as caution prevailed ahead of an afternoon supply auction.

By midday, the benchmark 30-year government bond was ⅝ lower at 85⅝, with the yield rising to 7.429 per cent. At the short end, the two-year note was off ⅛ at 99⅝, to yield 5.959 per cent.

The deterioration came despite economic news that appeared favourable for bonds. The Commerce Department reported that orders of goods expected to last more than a year had risen by just 0.1 per cent in April, against expectations of 1 per cent. This suggested the economy had grown at a measured pace last month, improving the likelihood that inflation remained in check.

Such a signal might have been expected to trigger a rally in fixed-rate government securities, whose value is eroded by inflation. Further declines in commodity prices provided what should have been additional support for bonds.

US management urged to improve use of derivatives

By John Gapper and Conner Middelmann

Senior US company managers needed to understand and control the risks of using derivative financial products, Mr Brian Quinn, the Bank of England's executive director of banking supervision, said yesterday.

Mr Quinn said recent losses announced by US companies "seem to have the common theme that senior management did not have full knowledge or full understanding of what was being transacted".

He told a conference organised by the Futures Industry Association and the Futures and Options Association that the need for companies trading derivatives to have "full and proper controls" was as great as for banks.

Mr Quinn said he "fully-endorsed" recent remarks on controls by the US General Accounting Office. "There will always be some products to which the correct response for an end-user is to say 'no', or at least 'not yet'," he said.

He said the responsibility of banks selling derivatives to companies varied depending on whether they were acting as advisers or simply as counterparties. In the latter case, there was no "best advice" requirement.

"Of course, commercial considerations may narrow the difference, but it must be correct for the precise nature of the relationship to be made clear from the beginning. Beyond that, caveat emptor," Mr Quinn said.

He said the use of derivatives would probably grow further "albeit, perhaps at a less hectic pace". The rate of growth would depend on treatment by financial regulators, and whether the number of market-makers grew.

He said there were signs the differences between exchange trade products and over-the-counter derivatives were being eroded, with the development of more customised exchange products such as Flex contracts in Chicago.

Separately, the accounting firm Price Waterhouse said yesterday derivatives were not excessively risky for companies to use, provided they took appropriate care.

Mr Andrew Coleman, a partner at the firm, said company looking to manage risks should "ensure that the appropriate risk culture is in place, that risk management policies are set and compliance monitored".

He said these requirements were the responsibility of senior management. Senior executives had to have a detailed understanding of the risks the business was trying to manage and the hedging techniques it was adopting.

In a number of recent cases, companies had incurred losses through the use of derivatives which seemed to involve types of interest rate swaps with an option embedded in the structure, Mr Coleman said.

"If the user is not sophisticated enough to recognise and control these risks, they could easily be overlooked in a company's internal review," he said.

He said the swap market was evolving too rapidly for some players to keep pace. Many companies were now relying on banks to help them value some of the more exotic derivative products.

GrandMet braves unease to launch $1.2bn offering

By Peter John

Several companies issued dollar-denominated debt yesterday, braving a choppy international bond market.

Grand Metropolitan, the large UK food and drink group, returned for the second time within a week to issue $1.2bn of zero-coupon 10-year paper in the Yankee market, the US domestic bond market for foreign borrowers.

The offer is GrandMet's first zero-coupon funding and one of the largest such offerings in the market. It is part of the company's strategy to develop a longer-term portfolio of debt.

Bookrunner Goldman Sachs, which controlled about three-quarters of the allocation, said its own quota had been nearly two times subscribed. The bonds were priced at 46.55 with an effective yield of 8.1 per cent.

They are expected to raise

INTERNATIONAL BONDS

some $600m for GrandMet, and were targeted at US insurance and pension groups which are required to hold a certain amount of zero-coupon paper in their portfolios.

Short-dated dollar paper was also in vogue. AT&T, the double-A rated US telecommunications company, offered $400m of two-year paper priced to yield 18 basis points above US Treasuries.

When CS First Boston broke syndicate, the yield spread on the bonds narrowed – an unusual situation in the current market. By the end of trading in London, the spread had come down to around 10 basis points.

Ford Motor Credit offered $150m of three-year debt priced to yield 45 basis points above Treasuries. The deal was announced before lead manager Deutsche Bank had formed a syndicate, and dealers said that the pricing was too aggressive. One commented: "It equates to Libor plus 20 [basis points] and you can already buy all the Ford paper you want at Libor plus 25."

Toyota Motor Credit Corp was rumoured to be planning a short-dated dollar issue. Dealers said the Japanese car company was expected to offer some $200m of three-year paper through a Swiss bank.

The World Bank chose the Eurolira sector to launch its structured medium-term note programme, announced in February. It achieved sub-Libor funding by swapping the proceeds of the L150bn offering of seven-year reverse floating-rate notes. The issuer has the option to exchange the notes into a straight FRN at the end of the second year.

The bonds, via BNL, traded at 99.43, 10 basis points within fees, despite the slump in Italian government bond futures yesterday afternoon.

● Moody's Investors Service upgraded the long-term foreign currency debt of the Czech Republic, to Baa2 from Baa3. Moody's said the Republic was making progress towards becoming a full market economy and had integrated quickly into the world trade system.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
AT&T	400	6.125	99.815R	Jun.1996	0.15R	+18 (5½%-96)	CS First Boston
PLDT	250	10.625#	99.465	Jun.2004	0.875	+350(7¼%-04)	BT Securities
Ford Motor Credit Co.	150	6.75	99.684R	Jun.1997	0.25R	+45 (6½%-97)	Deutsche Bank London
Multiva Mexico Trust(f)	125	9.75#	100.25R	Jun.1997	1.00R	-	Samuel Montagu
YEN							
Finnish Export Credit(a)‡	5bn	(a)‡	97.00	Jun.1999	undisc.	-	Morgan Stanley Intl.
Finnish Export Credit(b)‡	5bn	(b)‡	98.00	Jun.1999	undisc.	-	Morgan Stanley Intl.
DNB(c)	10bn	(c)	100.00	Jun.1997	undisc.	-	Morgan Stanley Intl.
GUILDERS							
Int'e Nederlanden Groep	500	7.125	99.25R	Jun.2004	0.30R	+38 (6¼%-04)	ING Bank
ITALIAN LIRE							
World Bank(d)‡	150bn	(d)	101.05	Jun.2001	1.75	-	BNL
Comit Finance (Jersey)(e)	100bn	10.00	100.50	Jun.2004	2.00	-	Banca Commerciale Italiana

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. [illegible]

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.500	08/03	104.6500	–0.450	8.75	8.36	8.15
Belgium		7.250	04/04	97.0800	–0.520	7.68	7.38	7.47
Canada *		6.500	06/04	86.8500	–0.350	8.48	8.25	7.95
Denmark		7.000	12/04	95.1000	–0.870	7.69	7.19	7.22
France	BTAN	8.000	05/98	105.5000	–0.380	6.38	6.04	6.20
	OAT	5.500	04/04	88.6900	–1.400	7.13	6.68	6.74
Germany		6.750	05/04	98.8900	–1.270	6.91	6.52	6.51
Italy		8.500	01/04	94.0000	–1.070	9.46†	9.02	8.92
Japan	No 119	4.800	06/99	107.6420	+0.330	3.06	3.18	3.45
	No 157	4.500	06/03	105.2150	+0.140	3.73	3.76	3.96
Netherlands		5.750	01/04	91.8800	–0.540	6.93	6.55	6.61
Spain		10.500	10/03	105.1500	–0.650	9.62	9.44	9.25
UK Gilts		6.000	08/99	92–15	–20/32	7.79	7.58	7.49
		6.750	11/04	89–16	–38/32	8.27	7.90	7.78
		9.000	10/08	105–10	–48/32	8.36	8.03	7.90
US Treasury *		5.875	02/04	90–29	–16/32	7.19	7.06	6.83
		6.250	08/23	85–29	–30/32	7.44	7.30	7.11
ECU (French Govt)		6.000	04/04	89.4500	–1.240	7.55	7.06	7.18

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime — Treasury Bills and Bond Yields

Prime rate	7¼	One month	3.98	Two year	5.97
Broker loan rate	5⅞	Two month	4.19	Three year	6.32
Fed.funds	4⅜	Three month	4.31	Five year	6.78
Fed.funds at intervention	-	Six month	4.80	10-year	7.21
		One year	5.24	30-year	7.44

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	120.24	119.10	-1.38	120.38	119.08	278,557	113,558
Sep	119.32	118.16	-1.38	119.40	118.00	10,140	24,095
Dec	118.44	117.28	-1.38	118.44	118.44	2	7,451

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
119	0.40	1.54	-	0.22	2.53	-
120	0.05	1.06	-	0.84	2.84	-
121	0.02	0.74	1.01	1.84	3.47	-
122	0.01	0.48	-	2.84	4.10	-
123	-	0.29	-	3.90	-	-

Est. vol. total, Calls 33,684 Puts 51,917. Previous day's open int., Calls 510,640 Puts 357,200.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.45	93.55	-0.69	94.50	93.30	240471	139923
Sep	93.88	93.08	-0.69	93.95	92.80	14091	30987
Dec	93.10	92.76	-0.69	93.10	93.10	10	192

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9350	0.97	1.23	1.50	1.82	0.91	1.17	1.44	2.06
9400	0.71	0.97	1.26	1.60	1.15	1.41	1.70	2.34
9450	0.51	0.75	1.04	1.40	1.45	1.69	1.98	2.64

Est. vol. total, Calls 18948 Puts 23258. Previous day's open int. Calls 167971 Puts 163809

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	99.23	-0.15	-	-	0	1258

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	111.45	109.88	-1.89	111.53	109.20	78891	83831
Sep	110.80	108.93	-1.73	110.80	108.40	5884	11821
Dec	-	108.93	-1.73	-	-	0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10850	2.44	3.30	2.01	2.87
10900	2.16	3.05	2.23	3.12
10950	1.91	2.82	2.48	3.39

Est. vol. total, Calls 2881 Puts 1886. Previous day's open int., Calls 9087 Puts 8881

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	96.74	95.93	-0.80	96.76	95.74	64,229	118,293
Sep	96.28	95.59	-0.80	96.28	95.27	2,018	11,020

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104-14	103-10	-1-04	104-15	102-30	113081	108171
Sep	103-07	102-07	-1-05	103-13	102-00	15321	7269
Dec	-	101-07	-1-05	-	-	0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
102	2-28	2-61	2-15	3-47
103	1-62	2-33	2-49	4-19
104	1-35	2-09	3-21	4-59

Est. vol. total, Calls 6347 Puts 4807. Previous day's open int. Calls 16929 Puts 10549

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	87.46	86.32	-1.24	87.50	86.30	905	10,342

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	104-03	103-17	-0-19	104-04	103-16	495,835	332,525
Sep	103-08	102-19	-0-20	103-07	102-19	11,182	99,325
Dec	102-14	101-30	-0-18	102-14	101-30	1,117	34,866

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	113.88	-	-	113.76	113.65	246	0
Sep	113.00	-	-	113.88	112.97	1402	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price indices UK Gilts	Wed May 25	Day's change %	Tue May 24	Accrued interest	xd adj. ytd		Low coupon yield May 25	May 24	Yr. ago	Medium coupon yield May 25	May 24	Yr. ago	High coupon yield May 25	May 24	Yr. ago
1 Up to 5 years (23)	122.93	–0.31	123.32	2.09	4.84	5 yrs	7.87	7.70	7.12	8.08	7.92	7.35	8.14	7.99	7.57
2 5-15 years (22)	142.30	–1.14	143.94	2.11	5.32	15 yrs	8.30	8.09	8.02	8.39	8.19	8.43	8.72	8.51	8.69
3 Over 15 years (9)	159.77	–1.79	162.69	2.99	4.06	20 yrs	8.27	8.07	8.25	8.39	8.19	8.54	8.55	8.34	8.74
4 Irredeemables (6)	181.35	–2.02	185.09	0.97	6.12	Irred.†	8.29	8.11	8.62						
5 All stocks (60)	139.93	–1.00	141.35	2.26	4.82										

Index-linked							Inflation 5% May 25	May 24	Yr. ago	Inflation 10% May 25	May 24	Yr. ago
6 Up to 5 years (2)	185.21	–0.21	185.61	0.73	2.53	Up to 5 yrs	3.71	3.62	3.03	2.69	2.60	2.24
7 Over 5 years (11)	175.61	–0.71	176.86	1.15	1.69	Over 5 yrs	3.71	3.66	3.56	3.52	3.46	3.37
8 All stocks (13)	175.72	–0.66	176.86	1.10	1.77							

Debentures and Loans						5 year yield May 25	May 24	Yr. ago	15 year yield May 25	May 24	Yr. ago	25 year yield May 25	May 24	Yr. ago
9 Debs & Loans (76)	129.46	–1.69	131.68	1.96	4.92	9.47	9.33	9.01	9.42	9.23	9.46	9.37	9.17	9.61

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 25	May 24	May 23	May 20	May 19	Yr ago	High*	Low*
Govt. Secs. (UK)	93.79	94.70	95.54	95.92	95.94	94.98	107.04	93.20
Fixed interest	112.74	113.59	114.50	114.73	114.29	111.47	133.87	110.92

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 24	May 23	May 20	May 19	May 18
Gilt Edged bargains	95.3	80.2	97.7	111.4	109.0
5-day average	98.7	98.7	100.7	98.9	92.0

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on May 25

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	91½	91¾	-¼	7.86
AlbertaProvince 9⅜ 95	600	104¼	104⅝	-⅛	6.11
Austria 8½ 00	400	105½	105¾	-¼	7.27
Bank of Tokyo 8⅛ 96	100	103¼	103⅝		6.44
United Kingdom 7¼ 97	5500	102⅞	103	-⅜	6.15
Volkswagen Intl Fin 7 03	1000	99⅛	99½	-⅛	7.13
World Bank 0 15	2000	24⅝	24⅞		8.71
World Bank 5⅞ 03	3000	92⅞	92⅞	-½	6.92
World Bank 8¾ 00	1250	111¾	112⅛	-⅜	8.30
Abbey Natl Treasury 8 03 £	1000	94⅛	94½	-⅞	8.98
Alliance Leics 11⅞ 97 £	100	109¼	109¾	-¼	7.74
British Land 8⅞ 23 £	150	88¾	89¼	-1⅝	10.33
Denmark 6¾ 98 £	800	95⅛	96	-½	7.98
EIB 10 97 £	637	105⅞	106¼	-½	7.48
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. [illegible] CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

UK GILTS PRICES

[illegible]

■ "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

Recovery seen in Chinese markets helps sustain share price

Courtaulds falls to £121.6m

By David Wighton

Courtaulds, the chemicals and fibres group, yesterday said it was seeing recovery in some of the markets hit by last year's credit squeeze in China.

Mr Sipko Huismans, chief executive, said that acrylic fibre prices had started to harden, helped by the problems of the Chinese cotton crop, and that demand for acetate tow, used in cigarette filters, was picking up.

The comments helped Courtaulds' shares remain unchanged at 527p in a falling market despite a sharp drop in annual pre-tax profits from £186.2m to £121.6m on turnover of £2bn (£2.09bn), including £43.7m (£141.2m) from discontinued activities.

The figures were affected by a number of exceptional items and a higher interest bill. At the operating level profits slipped 11 per cent to £174.5m.

About half the fall was due to a sharp drop in acetate tow prices after China suspended purchases in its anti-inflation drive. Profits from acetate tumbled by £12m to £28m.

Although Chinese purchases have resumed Mr Huismans does not expect to see much improvement in the short-term. "The price position will take some years to recover."

But the prospects for fibre prices have improved following a disappointing cotton crop in China. "It is now such a big economy that marginal changes start to have a significant impact on world markets," said Mr Huismans.

Trevor Humphries

Measuring up: Sipko Huismans having a suit made in Tencel, Courtaulds' new profitable fibre

Following the figures several analysts upgraded their forecasts with Mr Martin Evans at Hoare Govett increasing his pre-tax prediction from £170m to £185m before exceptionals, up from £146.2m last year.

Total profits from fibres and chemicals fell to £93m (£108m) on sales of £727m (£775m) with Tencel, Courtaulds new fibre, making a net profit.

Mr Huismans said Tencel's contribution this year would be held back by the costs of building European and Asian operations. Courtaulds is constructing a second US Tencel plant costing $134m (£90m) and is still examining four possible sites for its European factory.

Capital investment, which rose to £130m, or 1.7 times depreciation, will increase further this year but gearing was down to 30 per cent (39 per cent) helped by disposals profits of £25.1m.

There were £49.7m of restructuring charges, relating largely to the previously announced rationalisation in coatings and sealants, and the interest bill rose £10.1m to £31.6m, including a £9.1m charge to close interest rate swaps no longer required.

Profits from coatings and sealants slipped to £62m (£64m) on sales of £875m (£848m) with the marine paint business buoyant but US industrial markets still in recession. Polymer products were steady at £32m on turnover of £352m (£330m).

Dividends are up 5.7 per cent to 14.8p, via a 10.8p final, although earnings fell to 20.3p (35.1p) or 25.8p before exceptionals.

See Lex

Concert party at Liberty

By Caroline Southey

Mr Brian Myerson, who has forced a number of changes at Liberty, yesterday announced a concert party with a Malaysian group to press for further changes at the upmarket fabric and fashion group.

Mr Myerson and Insas, an investment holding company quoted on the Kuala Lumpur stock exchange with a market capitalisation of £205m, will control 16.8 per cent of Liberty's capital after June's enfranchisement of the non-voting shares.

Mr Myerson's family vehicle – Concerto Capital Corporation – will hold 12.8 per cent and Insas 4 per cent.

Since he began his campaign in 1992, Mr Myerson has been instrumental in the appointment of a new chief executive at Liberty, the appointment of non-executive directors and the enfranchisement.

This will reduce the votes controlled by the founding families from just over 50 per cent to about 40 per cent.

Mr Myerson said the object of the concert party was to "maximise Liberty's value to all shareholders". This, he said, included developing markets in the Pacific Rim, improving merchandising, and promoting changes of personnel at the company.

Liberty's success at its new outlet at Heathrow's Terminal 3 has led to the view that there is pent-up demand in east Asia.

Land Securities' £237m beats City forecasts

By Vanessa Houlder, Property Correspondent

The scale of the recovery in the property investment market was yesterday underlined by a 34 per cent rise from 504p to 677p in the net asset value per share of Land Securities, the UK's largest property company, during the year to March 31.

Pre-tax profits increased by 3.5 per cent, from £229.1m to £237.1m.

The group's properties were valued at just above £5bn, an increase of £934m. Following the better-than-expected results, the shares rose 2½p to 663p.

The recovery in the asset value reflected a sharp decline in yields, the ratio of income to capital value, which fell from 9.9 per cent to 8.2 per cent.

The occupational market showed little sign of recovery during the year, although Land Securities said that the downturn in rents appeared to be coming to an end.

"There has been some encouraging signs of stability and strengthening of demand, particularly for prime retail locations and top quality central London office buildings," said Mr Peter Hunt, chairman. "However, we do need to see rental growth coming through to underpin the investment market and to reduce its dependence on yield comparisons with gilts and other financial instruments."

Mr Hunt was cautious about the scope for profits growth. "There are positive signs of economic recovery but until businesses have sufficient confidence to expand their operations and create the demand for more space, the potential for increasing revenue profit remains limited," he said.

Over the past three years, the company has spent £800m on properties, more than 60 per cent of which was on acquisitions in which it bought nearly 1m sq ft of retail, industrial and warehouse space.

Mr Hunt said that the recent strengthening of yields had made it less attractive to purchase investment properties.

Land Securities has restarted its development programme. Last year it spent £23m on developments; it has committed a further £128m to developments this year.

Gearing fell from 59.6 per cent to 45.6 per cent. Available funds at March 31 amounted to £241.8m.

Values of properties increased by 19 per cent in the City and by 19.5 per cent in the west end and Victoria. Shop and office properties elsewhere in the UK rose by 16.4 per cent. Out-of-town retail property increased in value by 34.1 per cent and industrial and warehouse property by 20.5 per cent.

Earnings per share increased by 8.8 per cent to 35.66p (32.89p).

A final dividend of 17.4p is recommended, making a total of 24p, an increase of 5 per cent.

See Lex

Countryside Properties finds strengthening demand

By Andrew Taylor, Construction Correspondent

Countryside Properties, one of south-east England's biggest housebuilders, has strengthened its balance sheet substantially with the sale for £60m cash of its commercial property investment portfolio to BriTel Fund Trustees, the British Telecommunications pension scheme.

The sale, announced yesterday, emphasises the continuing strong institutional demand for commercial property as this market continues to recover.

Countryside intends to use the proceeds initially to reduce borrowings to £22.5m, equivalent to gearing of 29 per cent, compared with 103 per cent at the end of March.

A number of inquiries were received about the portfolio from property companies and institutions, but BriTel made the most attractive offer, said Mr Alan Cherry, Countryside's chairman. The book value of the investment properties was £56.7m at end-September.

Mr Cherry said that pre-tax profits for the six months to March 31 had risen by 43 per cent from £2.6m to £3.72m. Turnover increased by 62 per cent from £41.9m to £67.8m.

The company is paying a maintained interim dividend of 1.41p on an enlarged share capital following last year's £16.8m rights issue. Earnings per share for the latest six months were also maintained, at 4.1p.

Mr Cherry said that the number of private homes sold had risen from 161 to 224. Economic conditions continued to ease in spite of last month's tax increases, which had failed to dent the gradual recovery in the housing market.

The number of homes completed for housing associations had fallen from 494 to 148, due to the timing of handovers. Work for housing associations measured by on-going contracts had actually increased from £85m to £115m since the end of the last financial year.

Overall housing turnover had risen by more than 50 per cent to £55.5m (£36.7m) while profits had increased by 26 per cent to £3.9m (£3.1m).

Mr Cherry said the group would continue to build commercial properties for sale. This division increased profits from £88,000 to £457,000 in the first half and recently has negotiated forward sales of developments in Bishop's Stortford, Brentwood and Nottingham.

The property investment portfolio incurred a £600,000 loss in the first half, the same as last time.

NW Water ahead of expectations with £269m

By Peggy Hollinger

North West Water yesterday said it was comfortable with the initial outcome of the current price review process, as it announced a 9 per cent increase in pre-tax profits.

Replying to questions over whether North West felt the industry regulator had taken a tough approach to the draft price increases issued at the weekend, Sir Desmond Pitcher, chairman, said: "The logic and methods by which Ian Byatt goes about it leave one with a feeling of comfort."

The UK's 31 water and sewerage companies are preparing replies for Ofwat on the draft K factors – the rate above inflation by which they will be allowed to raise prices from 1995 to 2000. The final allowances will be announced on July 28. Analysts estimates for North West's increase range from 2 to 2.6.

The utility kicked off the water company results season with better than expected figures, largely due to a reduction from £36m to £12m in provisions for restructuring the regulated business. Pre-tax profits rose from £247m to £269m on turnover up from £878m to £924m.

The increase masked a disappointing performance from the process engineering business, where profits before interest and tax fell from £19.7m to £8.8m.

On the international contract business North West wrote off £8m in investments against £9.6m last time.

The regulated businesses showed a 15 per cent increase in profits before interest and tax to £326m because of reduced working capital and operating efficiencies. A decline in industrial and commercial turnover held back the advance in sales to 6 per cent at £729m.

Gearing fell from 29.1 per cent to 27.3 per cent.

The final dividend is increased to 15.4p for a total 8 per cent higher at 23.07p (21.4p). Earnings rose from 62.3p to 70.8p.

● **COMMENT**

North West warned at the interim stage that process engineering would be difficult, but one might wonder why it has taken the group two years to spot excessive overheads. The utility, as expected, has returned a sterling performance. All of this is almost irrelevant, however, given uncertainty over future price increases. Until the K factors are known the sector will be unattractive. Forecasts are for £290m this year, for a prospective multiple of 7 and a yield of 6 per cent. Yesterday's noises may leave existing investors as comfortable as the chairman, but they may not be enough to tempt new ones in.

COMPANY NEWS: UK

Wide-ranging review of Safeway in progress

Argyll 13% down after depreciation charges

By Neil Buckley

Depreciation charges, tough competition and a poor performance at its Lo-Cost discount chain combined to produce a 13 per cent fall in pre-tax profits at Argyll Group, the UK's third-largest grocery retailer, in the year to April 2.

The fall, to £361.8m, compared with £417.3m for the previous 53 weeks, or £407m on a 52-week basis.

This year's figure was depressed by £37.1m of new depreciation charges after Argyll began writing down superstores, and a £3m property loss.

Adding those back, profits were still lower than last year – in contrast with Argyll's competitors, Tesco and Sainsbury, which were also hit by depreciation and property charges, but improved profits before the accounting changes.

In spite of a fall in earnings from 27.1p to 22.6p per share, the total dividend goes up to 11.5p (10.9p), with a proposed final of 7.75p.

However, directors said future rises would be in line with earnings growth.

Sir Alistair Grant, chairman, said competition would remain tough, but there were signs the market was stabilising after a downward adjustment in margins.

The gross margin at Safeway had fallen 0.3 percentage points in the second half, but was now running only 0.1 to 0.2 points below last year.

Current trading showed some encouragement with like-for-like sales up 0.5 per cent, before price deflation of 0.7 per cent.

Sales at Safeway increased by 12 per cent on a 52-week basis to £4.87bn, with operating profits up 7.4 per cent to £361.2m. New stores contributed 11.6 points, with 0.4 points from existing stores. Inflation averaged 1.2 per cent, but prices had fallen in the last four months of the year.

Presto and Lo-Cost fared less well, with sales up 2 per cent on a 52-week basis to £1.11bn, but operating profits were down by 20 per cent to £40.7m.

The company said cutting prices at Lo-Cost to strengthen its position in the discount market had improved sales but not profitability, and a fundamental review of the business was under way. Analysts believe it will be sold.

Safeway has also appointed consultants to review all its operations and the results will be announced with the interim profits in November.

● COMMENT

As it admitted yesterday, Argyll is a follower rather than a leader. It has lagged behind its main rivals in instituting a strategic review – and in revealing the expected cost savings – as well as in diversifying or expanding overseas. The business is sound and well-run, and the business review and other initiatives should certainly cut costs. But while the threats of a price war have receded, the outlook remains tough, and without a dose of inflation, earnings and dividend growth prospects look unexciting. However, with current-year forecasts averaging about £375m the shares are on a prospective multiple of only 10.25, which may suggest they are a little oversold – especially given the 6 per cent yield.

Sustained growth in fees behind Warburg's £297m

By Norma Cohen, Investments Correspondent

SG Warburg, the investment bank, reported record pre-tax profits for the year to March 31 reflecting sustained growth in commission and fee income from advisory and underwriting activities.

At £297m, profits were double the comparable £148.2m, on total operating income of £1.04m (£715.8m). Earnings per share were 82.4p (39.6p) or 75.7p (37.5p) fully diluted. The total dividend is increased to 22p (19p) with a proposed final of 16p.

Mercury Asset Management, the 75 per cent-owned subsidiary, reported a 33 per cent rise in pre-tax profits to £109.5m (£82.3m) despite a sharp rise in expenses. Earnings per share rose to 42.9p (32.6p) and the dividend is raised 50 per cent to 18.5p (12p), lowering cover to 1.99 times.

The investment banking side recovered to £187.5m, almost three times the £65.9m of the previous year. Funds under management rose from £49.7bn to £60.4bn, of which £3.7bn was net new cash.

A little more than 25 per cent of the new cash came from UK institutions, the source of most of MAM's fund management business. Another £1bn came from investment trusts, £400m from charities and private banking with the remainder from international sources.

"The business, in common with the industry, has had a good year," said Lord Cairns, chief executive. However, he added: "It could prove to be a peak year in the economic cycle."

After a strong first half, revenues from fee and commission-based activities continued to grow strongly throughout the year.

Group fee and commission income rose from £478.1m to £749.1m, of which £446.6m was earned in the second half.

While declining to predict whether fees could maintain momentum, Lord Cairns said: "The pipeline of business is still very strong." And he noted that new issue underwriting was the single most significant contributor.

Although revenues from marketmaking and proprietary trading improved from £145.5m to £207.2m, most – £140.6m – were received in the first half. They were significantly lower in the second six months, which included volatile trading conditions in most world markets in February.

However, Lord Cairns said that a greater, and more stable, percentage of overall profits was likely to be derived from trading in the future than is currently the case.

Largely as a result of the increased trading activities, gearing rose sharply to 41 per cent, having hovered at about 15 per cent for the previous three years, and may rise further. "We think our gearing is conservative relative to the industry," Lord Cairns said.

He said that more than 50 per cent of the group's business was now derived from outside the UK and would increasingly be international.

Mr Hugh Stevenson, MAM chairman, said that the fund management company's activities were also increasingly international with about 20 per cent of all funds under management being those of non-UK clients.

Growing demand for fund management services for so-called defined contribution schemes helped assets of Mercury Life, the life assurance division, to nearly triple to £155m.

However, expenses have risen in the past year by a third to £133m, while turnover rose more modestly. Mr Stevenson attributed the rise to increased performance-related pay and an increase in back office staff in the later half of 1993 to cope with the sharp rise in trading turnover.

PUBLIC WORKS LOAN BOARD RATES
Effective May 24

	Quota loans*					
	'Lower' quota rates			'Higher' quota rates		
Years	EP†	A††	maturity§	EP†	A††	maturity§
1	-	-	5¾	-	-	5½
Over 1 up to 2	5⅝	5⅝	5⅝	5¾	5¾	6¾
Over 2 up to 3	6¼	6⅜	7¼	6⅜	6½	7⅜
Over 3 up to 4	6¾	6⅞	7⅝	6⅞	7	7¾
Over 4 up to 5	7⅛	7⅛	7⅞	7¼	7¼	8
Over 5 up to 6	7¾	7½	8⅛	7½	7⅝	8¼
Over 6 up to 7	7½	7⅝	8¼	7⅝	7¾	8⅜
Over 7 up to 8	7¾	7¾	8¾	7⅞	7⅞	8½
Over 8 up to 9	7⅞	7⅞	8⅜	8	8⅛	8⅝
Over 9 up to 10	7⅞	8	8⅜	8⅛	8¼	8¾
Over 10 up to 15	8¼	8⅜	8⅝	8½	8⅜	8¾
Over 15 up to 25	8⅝	8⅝	8¼	8¾	8¾	8⅝
Over 25	8¼	8¼	8¼	8⅝	8⅝	8⅝

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

BSG enhanced share alternative take-up

BSG International yesterday announced it had received elections for the enhanced share alternative in lieu of the final dividend for the 1993 year in respect of holdings totalling 244m ordinary shares – more than 98 per cent of the issued capital.

Of these elections Panmure Gordon has received acceptances for its cash offer in respect of 55m shares – 22.6 per cent.

Calling the accountants to account

Andrew Jack reports on the latest move in the Lasmo/Enterprise Oil bid battle

Late 1980s accounting met with old-style aggressive 1960s acquisition battle tactics yesterday as the escalating war of criticism by Lasmo in its defence from Enterprise's hostile bid switched to its predator's financial reporting policies.

In a 12-page document called "Enterprise Oil: the financial myth", Lasmo accused the oil company of a series of manipulations and of contravening UK accounting standards.

"This goes to the heart of [Enterprise's] value," said Mr Rudolph Agnew, Lasmo's chairman. "They have overstated profits, have an uncovered dividend and an unsustainable share price."

Enterprise lost no time in fighting back. Mr Andrew Shilston, finance director, said: "This is incredibly mischievous. We have absolutely not broken the rules. To get a lecture on accounting from Lasmo given their history is a bit rich."

The company's auditors, KPMG Peat Marwick, also issued a statement saying: "We have signed an unqualified audit report and in our opinion the accounts of Enterprise Oil do and have complied with UK accounting standards."

The document represents the outcome of work conducted by teams from Ernst & Young, Lasmo's auditors, and Coopers & Lybrand. Both firms said yesterday they stood by the accusations made.

Lasmo's central attack is that Enterprise has not recorded the assets bought in large acquisitions at their purchase price, which would then require substantial depreciation. Instead, it has written them down immediately against reserves in the balance sheet, which it argued "contravenes" accounting standards.

Alan Harper

Rudolph Agnew: 'We've laid out all the facts. Now it is for the market to study them'

It highlights two examples. In 1988 Enterprise bought an interest in Beryl Properties for £158m and wrote the assets down against reserves by £149m to leave a recorded value of £9m. In 1989 it acquired assets from Texas Eastern Corporation for £442m, and wrote down their value by £386m.

"EARNINGS...the playthings of ACCOUNTANTS"

The document also shows that Enterprise used merger accounting when it bought ICI Petroleum in 1987, and that if acquisition accounting had been used instead, net assets would have been recorded at £109m higher.

Mr Shilston said that the company had used merger accounting, which allowed it to "add the balance sheets together" without the need to readjust for the fair values of the assets. He said he believed this was more prudent.

"We took the view that the substance of the transactions were as mergers," he said. "We abided by the rules that existed then. This was not a mindless interpretation but a commercially-based decision."

Fred 6, a draft new accounting standard which will become mandatory this autumn, will prevent Enterprise's approach to the acquisitions in the future.

Lasmo criticises Enterprise for "opaque accounting" in its presentation of Elf Enterprise Petroleum, a joint venture one third owned by Enterprise created in 1991, which in turn acquired an interest in the Piper Field in the North Sea and has so far been heavily lossmaking.

However, Mr Shilston said that Lasmo had itself acquired a direct interest in the field "at a slightly higher price". "We would not disagree that the Piper field took longer and cost more than expected. But Lasmo has been subjected to it infinitely more directly and materially than us."

Finally, Lasmo attacks Enterprise's dividend policy, saying it is overdistributed because its earnings are inflated and because it is using a higher proportion of its cash flow to fund the dividend payment; and of raising its dividend while its underlying earnings have fallen.

Mr Shilston said the relatively high dividend paid by Enterprise reflected the company's strength. "We are quite happy to be associated with the quality end of the market. What's the embarrassment?"

He stressed that the company had adequate cash flow to fund the dividend payments, which was far more important as a measure of its ability to pay than the earnings figure.

Enterprise is believed to have written to the Takeover Panel complaining about the accusations. However, Mr Agnew stood by the charges. "We have laid out all the facts. Now it is for the market to study them. If they believe we have made a telling point Enterprise will be severely damaged. If they ignore them God help us all."

Order book worth £500m and prospects for new contracts good

Vosper builds 13% advance

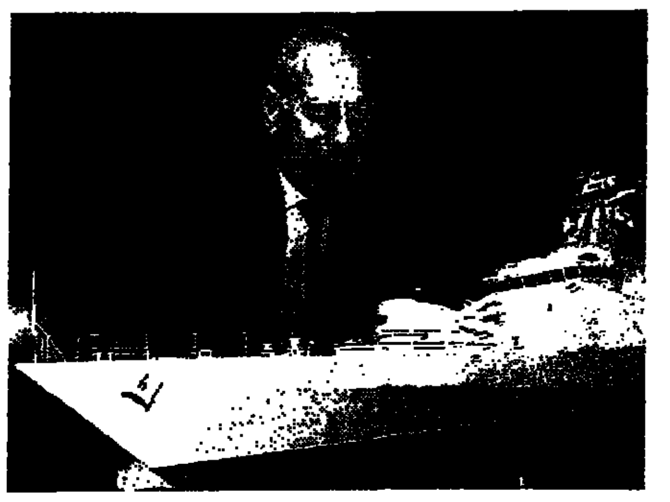
By Andrew Bolger

Vosper Thornycroft Holdings, the Southampton-based shipbuilding and engineering group, increased annual profits by 13 per cent and said yesterday its order book was worth £500m.

Pre-tax profits rose from £19m to £21.5m in the year to March 31, while turnover increased by 22 per cent to £239m.

Mr Peter Usher, chairman, said the policy of broadening the group's customer base continued. Businesses independent of Vosper winning warship contracts had risen to 15 per cent of group earnings – and would reach 20 per cent, following the acquisition last month of HSDE, a business which makes electronic control systems for gas turbines.

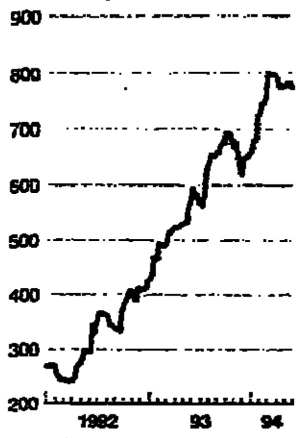
Vosper has bid against the GEC-Yarrow yard on the Clyde to build up to seven Sandown class minehunters for the Royal Navy and said it hoped to hear the outcome in the next few months. The Southampton group has built the five existing Sandown vessels, which have fibreglass hulls.



Colin Beere

Peter Usher: continuing to broaden the group's customer base

Vosper Thornycroft



Source: Datastream

Mr Usher said: "We have responded vigorously to this tender and were pleased to note that bids proposing foreign hulls will not be accepted on this occasion."

Vosper is competing with German and French shipyards for a patrol craft order for the Kuwait navy.

It is also interested in a joint venture to build six minehunters for the Royal Australian Navy, which would be constructed in Australia, but using Vosper technology.

Mr Usher said that with good prospects of new orders from home and abroad, he had every expectation that the group could continue to report good results in the year ahead.

Earnings per share rose 12 per cent to 46.2p (41.3p). A final dividend of 12.7p gives a total 18p (15.8p), an increase of 14 per cent.

● **COMMENT**

These results, slightly ahead of expectations, showed again that Vosper's focus on minehunters and patrol craft – selling mainly to the Middle East and east Asia – has it insulated from the downturn in spending by former cold warriors. A lack of recent orders has brought down the future order book from more than £700m last year to £500m, but the group seems well placed to win some of the work to be awarded soon. The Royal Navy minehunters order would be particularly welcome, as the proportion of work being done for the Ministry of Defence has slumped to only 2 per cent, with 95 per cent earmarked for export. Forecast profits of £24m put the shares, down 1p yesterday at 778p, on a prospective multiple of 15.2 – an 8 per cent premium to the market. The shares are tightly held and have had a good run, more than tripling in value since 1992, but they could advance further if the minehunter order comes through.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Argyll ......fin	7.75	Aug 23	7.35	11.5	10.9
Carlton Comms ......int	8.15†	Aug 26	7.4	-	18.7
Chamberlin Hill ......fin	4.5	July 30	4.5	6.5	6.25
Countryside ......int	1.41†	Sept 6	1.41	-	4.11
Courtaulds ......fin	10.8	Aug 2	10.2	14.8	14
Dundee & London ......int	3	July 29	3	-	9
Fleming High Inc......fin	1.1	July 1	1.45	4.4	5.8
Land Securities ......fin	17.4	July 18	16.55	24	22.85
Leeds ......int	2.1	July 1	1.833*	-	5.667*
London Smaller ......fin	2.39	July 11	2.29	3.17	3.07
Mercury Asset ......fin	18.5	July 1	12	22.5	15
Morland ......int	3.06	July 15	2.78	-	9.74
Murray Ent'prise ......int	0.7	July 29	nil	-	0.7525
New London Cap ......int	0.5☆	July 15	-	-	-
North West Water......fin	15.4	Oct 3	14.27	23.07	21.4
Vosper ......fin	12.7	Aug 16	11.1	18	15.8
Warburg (SG) ......fin	16	July 1	13.75	22	19
Young & Co's ......fin	7.75	July 12	7.5	15	14.5

Dividends shown pence per share net. †On increased capital. §USM stock. *Equivalent after allowing for scrip issue. ☆ Maiden dividend.

Leeds up despite margin pressure

By David Blackwell

Leeds Group, the West Yorkshire-based textile dyer and printer, lifted profits by 17 per cent and sales by 21 per cent in its first half.

"We have managed to wring some growth out of pretty challenging market conditions," said Mr Robert Wade, chairman.

Pre-tax profits rose from £2.92m to £3.41m in the six months to March 31, on turnover ahead from £21.7m to £26.4m.

Mr Wade said the UK high street fashion business had been under constant price pressure.

Continental Europe had been at a low ebb since the autumn, making trading tough in the Benelux countries, Germany and France. But while many continental competitors were losing money, the group's transfer printing business in the Netherlands, acquired last year, was trading profitably.

Margins were also under pressure, from increased prices for both wool and cotton and demands for extended credit. However, the group had attained across the board cuts of at least 5 per cent from its dye wares and chemicals suppliers.

The group, which makes most of its money through commission business, had succeeded in reducing its dependence on clothing by going for curtain and upholstery business.

The outcome included £332,000 (£385,000) of business interruption insurance following a fire at a factory in November 1992.

Earnings rose from 7.2p to 8p. The interim dividend is increased from 1.83p to 2.1p.

Flotation puts £141.5m value on London Clubs

By David Blackwell

London Clubs International, owner of the Ritz Club and five other London casinos, yesterday finalised its flotation, pricing the shares at 200p to give it a market capitalisation of £141.5m.

Of the 16.38m ordinary shares to be placed with institutions, 4.09m will be subject to a clawback to meet retail demand through intermediaries.

The shares – of which 15m are new – have been placed by Samuel Montagu, which has fully underwritten the issue.

The placing will raise about £27.5m net of expenses, which will be used to pay off bank debt incurred under the 1989 management buy-out from Grand Metropolitan.

The group will be quoted on the USM because the management has only two years' experience of the company, and Stock Exchange rules require three years.

The change of management followed a police raid in 1991 under the Gaming Act, just days before a previous planned flotation.

The clubs were issued with new licences in autumn 1992. Mr Alan Goodenough, chief executive, said the company considered the events of 1991 as "very much a thing of the past". The company would be seeking a full listing next year.

The prospectus shows the group, which operates casinos in Europe and Egypt as well as on cruise ships, made pre-tax profits of £14m in the 51 weeks to March 27, compared with £9.1m in the 53 weeks to April 6 1993.

Turnover amounted to £146.4m (£143.7m).

Pro forma pre-tax profits are put at £23.1m, and earnings per share before restructuring costs of £2m at 22.5p, giving a multiple of 8.9.

The prospectus said the directors would have recommended a dividend of 11.92p, giving a notional gross yield of 7.45 per cent.

Mr Goodenough said the group intended to export its expertise in the industry.

Early next month it is opening a new casino in Taba, Egypt, across the border from the Israeli resort of Eilat.

● **COMMENT**

This issue has been priced to go, even on a day when the market fell sharply and the National Lottery winner was announced. Although the high rolling Ritz accounted for almost two thirds of last year's trading profits, the portfolio of casinos is strong. This helps to minimise the risk of relying too heavily on a few high spending players, although it is worth recalling this week's warning from Ladbroke that credit betting profits were down in the first four months. The yield is very high, and strong cash generation will sustain it. Providing the market does not come back too far, the shares should move to a premium when dealings start on June 6.

Paramount calls for £5.42m

By Caroline Southey

Paramount, the public house operator, is raising £5.42m net of expenses through a 1-for-1 rights issue.

Most of the proceeds will be used to buy 28 pubs from Greenalls Group for a total consideration of £3.27m.

The issue of 69.8m shares, priced at 9p each, has been fully underwritten by Meespierson.

The company's shares closed up ¼p yesterday at 11p.

The company also announced it had applied to move from the Unlisted Securities Market to a full listing.

The acquisition will increase the number of pubs owned by Paramount to 124. It operates 246 pubs in north-west England and Wales. All its establishments are tenanted.

Paramount also intends to use part of the proceeds to make a further investment in Real Inns, a joint venture company owned equally with John Labatt (UK), a subsidiary of Labatt, the Canadian brewer. Real Inns owns 77 pubs.

Paramount said it was buying the new pubs as part of its strategy to increase the overall value of its estate and to improve operating margins.

"The additional pubs will give us greater purchasing power with breweries. Our aim is to increase our barrelage through a large estate while keeping our overheads lean," the company said.

Its strategy is to buy smaller value pubs – in the £100,000 to £140,000 range – and to develop this niche market.

In the six months to November 30 1993 the company reported pre-tax profits just ahead from £261,000 to £273,000.

NEWS DIGEST

Approach to High Gosforth

High Gosforth Park, which owns and runs Newcastle Racecourse, said it had received an approach which might or might not lead to an offer for the company. It advised shareholders to take no action for the time being.

Last week the company's application for planning permission to develop its green belt site was turned down by Mr John Gummer, the environment secretary. In the light of that decision, the directors said they were reviewing all possible options.

Loss of £0.47m for enlarged Arcadian

Arcadian International reported pre-tax losses of £471,000 for the eight months to December 31, its new year-end. In the year to April 30 1993 there were losses of £994,000.

Mr Robert Breare, chief executive, said the reporting period had been one of transition for the company whose core business was now the ownership and operation of hotels and leisure facilities.

The results were the first since the increase in capital and the acquisition of the Clipper and Hidden hotels in November.

Turnover was £12.8m (£326,000). Losses per share came through at 1.2p (8.6p) after a tax credit of £325,000 (charge £73,000).

Donelon Tyson accounts delayed

Shares in Donelon Tyson fell 4p to 15p yesterday as the Cheshire-based building and civil engineering company announced that its annual accounts would be delayed and that the dividend was likely to be passed.

The directors said that their expectations of the group's results for the year ended December 31 1993 were based on an assessment of the value of work in progress which reflected the recognition of certain contractual claims.

Because of delays in agreeing some of those claims they could not now be included in the 1993 results, they said.

The value of the unresolved claims is £3.5m.

New London Capital declares dividend

New London Capital, one of the recently formed Lloyd's investment trusts, reported its results for the period from incorporation to March 31 1994.

Net assets per share of the trust at end-March stood at 91.2p. Attributable revenue for the period amounted to £539,592. Earnings per share emerged at 0.9p and an interim dividend of 0.5p is declared.

North American Gas net assets down

Net asset value per share of North American Gas Investment Trust stood at 90.83p at April 30, against 101.68p a year earlier.

For the nine months to end-April there were after-tax losses of £88,000 (£316,000 revenue), equivalent to 0.25p (0.9p earnings) per share.

Dundee & London beats benchmark

Dundee & London Investment Trust achieved growth of 10 per cent in its net asset value per share over the six months to April 30 against 7.4 per cent by the benchmark FT-SE SmallCap ex Investment Trusts Index.

The figure improved from 303.4p to 333.9p. At the previous year end the figure was 270p.

Net revenue for the half year to end-April was £725,000 (£654,000) for earnings per share of 4.28p (3.85p). The interim dividend is held at 3p.

F&C Emerging net asset value at 117.1p

Foreign & Colonial Emerging Markets Investment Trust reported net asset value per share of 117.1p at March 31 against 83.7p a year earlier and 100.2p at the September 30 year end.

There was a net loss for the six months to end-March of £270,000 (£222,000 revenue) for losses per share of 0.27p (earnings 0.22p).

Murray Enterprise net assets fall

Murray Enterprise, the investment trust specialising in smaller UK quoted companies, reported a fall in net asset value per share from 141.48p to 136.02p during the year to March 31.

The decline over the last six months was even more marked with the figure at September 30 being 144.41p.

However, the fully-diluted figures showed an increase to 135.38p (102.48p), with the September 30 figure at 124.42p.

Net revenue for the six months to the end of March was £280,000 (£2,000) reflecting the extensive changes in the portfolio in the period. Earnings per share were 1.3p (0.01p) or 1.16p (0.01p) fully diluted.

An interim dividend of 0.7p (nil) is declared.

COMPANY NEWS: UK

Young hits out over duty after standstill

By Graham Deller

Mr John Young, the normally ebullient chairman of Young & Co's Brewery, was in far from jocular mood yesterday as he launched a fresh attack on the government's "short-sighted" policy on beer duty.

"British brewers contribute more in [excise] duty than in the rest of the European Union put together, which puts us at a major disadvantage."

Mr Young was speaking after announcing results virtually unchanged for the 53 weeks to April 2. "We are being hampered by levels of duty that are totally unfair when compared with the low rates levied on our European competitors."

He continued: "Cheap, and often illegal, imports are taking away much of our trade and therefore the government's income." He called for a immediate reduction in British rates "to restore confidence and to safeguard thousands of jobs".

Pre-tax profits amounted to £5.18m (£5.17m). Despite the extra week's trading, turnover showed a marginal decline to £72.3m (£72.9m). Following a sizeable drop at the halfway stage, interest charges for the full year remained relatively high at £2.73m (£3.02m) reflecting finance of the debenture stock issued in April 1993. "The long term security and stability the debenture gives us has meant that we have been unable to benefit in full from lower rates", Mr Young said.

A recommended final dividend of 7.75p lifts the total by 0.5p to 15p, covered 1.8 times by earnings of 26.43p (26.4p).

Increases in television activities and continuing growth in video sales

Carlton advances 33% to £73m

By Raymond Snoddy

Mr Michael Green, chairman of Carlton Communications, may have picked a losing National Lottery ticket yesterday but he was still able to celebrate an unexpectedly high 33 per cent rise in interim pre-tax profits.

Carlton had a 10 per cent stake in the Great British Lottery Company, one of the seven losers in the battle for the National Lottery licence.

Profits of £73.4m (£55.1m) for the six months to the end of March were boosted by growing profits from Carlton Television, holders of the London weekday ITV licence and continuing growth from the video sales market, which helped Technicolor's performance.

Excluding the two month contribution from Central Television, the underlying profit increase was about 25 per cent.

Ironically Carlton, which now owns the two largest ITV companies, will benefit from the launch of the National Lottery in November. It is likely to generate huge sums in television advertising.

Most analysts were predicting profits of £65m to £70m for the half year and yesterday were raising their expectations for the full year from £170m to £180m.

"The first six months have shown good growth, both in trading, and progressing our strategy to expand and maintain our leading position in broadcast television and film and video services," said Mr Green, adding that prospects for the next six months were encouraging.

Turnover was £658.7m (£469.9m), an increase of 40 per cent. Earnings per share rose by 16 per cent to 21.3p (18.3p); the interim dividend is increased to 8.15p (7.4p).

Turnover in broadcast television, including the Central contribution, rose to £202.6m (£64.1m) and pre-tax profits were up to £22.9m (£600,000).

Pre-tax profits in the video and audio products division rose to £35.6m (£30.8m), largely because of the increase in demand for sell-through video cassettes. Turnover was £234.8m (£207.5m).

The share price yesterday fell 22p at 901p.

See Lex

Tony Andrews

Michael Green: picked wrong lottery ticket but results ahead

Old Speckled Hen boosts Morland

By Paul Taylor

Morland, the Thames Valley-based brewer, yesterday reported a 10.6 per cent increase in interim profits buoyed by a better than expected 21 per cent increase in sales of its own ales, led by Old Speckled Hen.

Pre-tax profits rose to £4.02m (£3.63m) in the six months to March 31, on turnover ahead 12 per cent at £26.6m (£23.7m).

Earnings per share were 12.8p (11.9p) and the interim dividend is lifted to 3.06p (2.78p.) The shares rose 10p to 518p.

Mr Jasper Clutterbuck, chairman, said the result continued a trend of sustained growth and had been achieved despite a generally depressed trading environment.

Operating profits rose 12.3 per cent to £5.41m but were reduced by a £109,000 (£30,000) deficit on property disposals and net interest costs of £1.28m (£1.16m).

Sales of Old Speckled Hen, now its biggest selling beer brand, more than doubled over the same period last year, helped by a series of agreements with wholesalers and other brewers. Overall beer volumes were ahead 13 per cent, and the group said it plans to increase capacity at its Abingdon brewery next year.

Volumes in the tenanted estate were slightly lower but profits were marginally ahead on a like-for-like basis. The 75-pub estate, showed a 17 per cent increase in profits with those pubs specialising in food again recording strong growth.

Food now represents 27 per cent of sales, and meals in the Artist's Fare restaurants showed a 12 per cent increase. The group is seeking more Artist's Fare and Ale House sites.

Volumes in the the free trade, including wholesalers, were 50 per cent higher and, combined with a £100,000 reduction in bad debts, led to a marked improvement in profit contribution.

Net borrowings were £23.9m, down from £24.8m at the year end, equivalent to gearing of 22.7 per cent.

ACT division forms alliance with Gartner

ACT Business Systems, a division of the Birmingham-based computing services company, has formed a strategic partnership in Europe with the Gartner Group, a leading US information technology consultancy, writes Alan Cane.

The alliance marks a further stage in ACT's transformation from computer manufacturer to a provider of computing services.

The alliance is intended to exploit the expertise of BIS Information Systems, which ACT bought last year for £94m, and ACT Logsys, part of the group which specialises in open systems for central and local government.

Last year, ACT made pre-tax profits of £11.5m on sales of £109m. Gartner, once a Saatchi & Saatchi subsidiary but now a US company quoted on Nasdaq, advises companies on information technology strategies. It will be the prime contractor in the new alliance, subcontracting analytical work to ACT.

Mr Harvey Parr, managing director of ACT Business Systems, said he believed the division, which had sales of about £32m last year, was complementary to ACT's core financial interests.

Quality Software to raise £1.6m via placing

By Alan Cane

Quality Software Products, the Gateshead-based developer of accounting software for large companies, is raising £1.6m through a placing to enable the development of international business relationships.

The share price rose 4p to 405p.

QSP has invested some £16m over the past few years in developing an advanced system, Universal Olas, which has now been sold to eight customers.

Last year, it concluded a deal with Global Software, a US accounting software company, through which Global will distribute Universal Olas at minimum cost to QSP.

It is understand that the company has been having discussions with potential partners in Japan, France, South America, the Middle East and east Asia, with a view to striking similar distribution arrangements.

The company believes that £500,00 will be needed to finance the first of these deals. The rest of the money is being used partly for product development and partly as priming finance should opportunities from new business partnerships present themselves.

QSP recently announced an alliance with Hewlett Packard, a leading US electronic manufacturer.

Chamberlin & Hill shows 11% decline to £1.42m

Chamberlin & Hill, the maker of iron castings, electrical conduit fittings and switchgear, reported a near 11 per cent decline in pre-tax profits from £1.59m to £1.42m for the year to end-March.

The outcome was struck on turnover up by 8 per cent, from £20.3m to £22m. Interest payable was £131,000 (£141,000) and after tax of £288,000 (£441,000) earnings per share came out at 15.78p (16.07p).

Despite the fall in earnings directors are recommending an unchanged final dividend of 4.5p, making 6.5p (6.25p) for the year.

Mr John Eccles, chairman, said the second half of the year had proved more volatile than expected and the forecast improvement in the trading position following high levels of capital expenditure at the Bloxwich foundry did not materialise.

In addition, Fitter & Poulton ended the year with second half profits well below its estimates as a result of price competition and sharply reduced margins.

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COMMODITIES AND AGRICULTURE

Grain price fall sparks sell-off in commodities

By Deborah Hargreaves and Kenneth Gooding

Commodity markets sustained a long-awaited sell-off yesterday as the drop in grain futures prices in Chicago spilled over into other markets.

July coffee futures price at the London Commodity Exchange lost almost $250 a tonne at one stage in hectic trading. It later recovered to close down $138 a tonne at $2,210 a tonne. The nervousness in the commodity markets also affected cocoa which lost £30 a tonne at £1,024 a tonne.

The fall in price was partly due to speculators and fund buyers taking a breath in their current commodities buying spree. But analysts said the coffee market still looked tight even at these prices and could move higher again.

"Given the magnitude of the rally, the market still seems well supported at these breaks and I don't think we've seen the highs yet," said Mr Bill O'Neill, softs analyst at Merill Lynch in New York.

The coffee market has been pushed upwards by the reluctance of many companies to sell stocks they are holding because they are worried about further price rises. But supply tightness is expected to remain even in spite of the decision earlier this week by members of the Association of Coffee Producing Countries to sell off the rest of the stocks held under their export retention programme.

Investor interest in commodity markets has been sparked by the current price rises, which have received a lot of attention in the media. This has added fuel to the recent price spiral. Mr Lawrence Eagles, analyst at GNI, the London brokers said: "I've never known as much media interest in commodities in all the seven years I've covered the markets as there has been in the past week."

Some of the heat was also taken out of London Metal Exchange trading. There was much less business than in recent stormy days and copper trading became hesitant above $2,300 a tonne – but metal for delivery in three months reached $2,305 before a downward reaction set in. By the official close three-month copper was down $17 at $2,279.50 a tonne and in late trading it fell again to touch $2,250.

Traders suggested that the market was going through a necessary period of consolidation before making another upward move.

MARKET REPORT

Base metals follow copper

London Metal Exchange base metals prices generally followed copper higher in early trading yesterday and then lower as the day progressed.

ALUMINIUM moved in a narrow range, meeting resistance around $1,370 a tonne for three months delivery and ending at $1,366, a $5 loss.

NICKEL struggled near the lower end of the day's range for most of the session, but traders said buying was being attracted on the dips. The three months position ended at $6,555 a tonne, down $135.

At the London bullion market the GOLD price recovered most of Tuesday's fall as buying was prompted by the weaker dollar and sharp drop in bond prices. But the market looked very much in the hands of the investment funds.

Compiled from Reuter

Hydro and Amoco in Russian oil agreement

By Karen Fossli in Oslo

Norway's Norsk Hydro Production and Amoco Eurasia Petroleum Company yesterday announced a co-operation agreement that could lead to joint rights for petroleum exploration and development in the southern part of the Russian sector of the Barents Sea and the Pechora Sea.

The agreement covers joint evaluation of oil and gas production opportunities of the vast region and close co-operation with Russian companies and research institutes.

The two companies have separately studied this part of the Arctic during the past five years but have joined forces to co-ordinate resources in an effort to enhance their evaluations and working knowledge of the area, for which the Russians have announced their intention to issue exploration rights.

A Norsk Hydro executive said that the two companies would also be looking at sites to identify a potential location for an oil export terminal.

Amoco and Hydro last month joined Texaco and Exxon in establishing the Timan Pechora Company, which is negotiating a production sharing contract with Russia for an area onshore in the Timan Pechora Basin.

In the Barents and Pechora Seas Hydro and Amoco will be seeking to identify areas where exploration could be undertaken.

Five years ago Hydro provided technical assistance to the Russians during production testing of the giant Shtokmanovskoye field, believed to be one of the world's biggest gas fields, in the northern part of the Barents Sea. Hydro had hoped to be awarded a production sharing contract for the field, which went instead to the Russian company Rosshelf. Hydro withdrew from the project in 1992.

Economic reform brings golden dawn in Peru

Sally Bowen on the flood of foreign miners into South America's 'new Eldorado'

To judge from the interest shown in last week's first ever gold symposium held in Lima, Peru is now seen as the continent's new Eldorado. More than 800 gold experts – geologists, metallurgists, traders, environmentalists and just plain miners – attended the three-day event.

"It's like Chile was 15 years ago," said Mr Johan Smit of Newcrest's Peruvian subsidiary. "There's a 'let's go' feeling which is tremendously exciting. It's the herd instinct, but in this case the herd is right."

Acting as chief magnet for foreign interest – and drawing gold prospectors to the north-central Andean department of Cajamarca – is the provenly successful Minera Yanacocha operation, a joint venture between Newmont Mining of Denver, leading local group Buenaventura and France's BRGM.

Yanacocha is a perfect advertisement for the opportunities on offer in Peru today. Its gold, in a low-grade disseminated deposit, was commercially unrecoverable until the development of leaching techniques over the past decade. Now, since coming on stream last August, the company has clawed back its $37m initial investment in just seven months.

Carachugo, Yanacocha's first deposit, has mineable reserves in excess of 28m tonnes averaging 1.38 grams of gold per tonne. By November a second, nearby deposit known as Maqui Maqui will be producing its first dore bullion. Larger and richer even than Carachugo, Maqui Maqui promises 40m tonnes of ore at an average 1.91 grams a tonne.

Unlike Carachugo, whose porous ore can be scooped up and dumped directly on to leach-pads, Maqui Maqui will be exploited as an open-cast mine. Trials indicate the leaching cycle will take 120 days with a 60 per cent recovery rate, compared with Carachugo's exceptional 35-day cycle, 80 per cent recovery.

Development of Maqui Maqui is costing Newmont and partners $40m. With production costs around $150 a troy ounce and projected annual output of 180,000 ounces, Minera Yanacocha is on to another hugely profitable operation.

Combined output from the two Yanacocha deposits should top 400,000 ounces next year. That alone will boost national gold production to close to 40 tonnes a year and catapult Peru up the Latin American gold league table, still well behind Brazil but vying for second place with Chile. Gold would then become Peru's second most important export after copper.

Hard on the heels of Newmont in the current Peruvian gold rush is American Barrick, also Nevada-based. In the past six months, Barrick has established an aggressive presence, with "between 40 and 60" geologists and minerals experts sizing up maybe a dozen Peruvian prospects.

Barrick is already drilling at Cerro Corona in Cajamarca. The company is tight-lipped about its findings but industry rumours credit Cerro Corona with some 15m tonnes at 3 grams a tonne in an "attractive, eminently leachable oxide cap" with huge sulphide deposits below. Initial investment is expected to be in the region of $20m.

An equally enthusiastic newcomer to Peru is Canada's Cambior, which in March acquired the Cajamarce copper deposits of La Granja. Investing an initial $31m in the five-year exploration stage, Cambior expects to start drilling in June.

Simultaneously, the Canadian company will commencing development of a recently-acquired gold deposit in the remote eastern jungle department of Apurimac, the first foreign company to venture into a zone hitherto considered dangerous. Some 35 people are involved in Cambior's Peruvian operation and investment in exploration locally is "double what we're spending in Chile this year", according to Mr Andre Gauthier, Cambior's regional manager.

Yet another Canadian company, Placer Dome, has also gained a foothold in Peru. In January, it outbid Newmont to secure a gold deposit known as Jehuamarca-Canariaco in the northern department of Lambayeque. Initial studies are under way.

All of this is good news for the long-suffering Peruvian mining community. Inward-looking, nationalistic and protectionist economic policies meant Peru had been shunned by international investors for a full 25 years. With the exception of the giant Asarco-owned Southern Peru Copper Corporation and Japan's Mitsui – which has continued with a low-profile operation – mining development has been left to local companies.

"Four hundred mining concerns have closed down in the past 15 years and the rest are badly decapitalised," said Mr Roque Benavides, president of the national mining society. "There's been almost no new exploration. The deposits you see today were known in the 1960s."

Privatisation was an initial trigger for international investors. AngloAmerican/Mantos Blancos, Cyprus Minerals and China's Shougang Corporation, in addition to Placer Dome and Cambior, all acquired their stakes by bidding for formerly state-owned deposits at public auction.

Other foreign investors are forming associations with Peruvian mine-owners, many of whom hold promising claims but cannot finance development. Still others are participating in the anticipated boom by acquiring shares – many leading Peruvian mining companies have large, liquid holdings available for purchase through the Lima stock exchange.

But for many mining concerns like Newcrest and RTZ, Peru's attraction lies in its largely unexplored territory. Over the past year, Peru's mines ministry has seen twice as many claims lodged as in the previous four decades.

"In Peru, the nice surprises come from grass-roots exploration," says Mr Smit. With increasingly attractive macro-economic conditions and a much improved security situation, it seems plenty of foreign investors agree.

Demand for gold in markets covered by the World Gold Council fell by about 25 per cent in the first quarter compared with the same months a year ago, from 693.2 tonnes to 514.2 tonnes, the producers' organisation reported yesterday, writes Kenneth Gooding, mining correspondent.

In early 1993 gold prices in US dollar terms touched a seven-year low and demand was also boosted by import liberalisation in India where the number of jewellery shops consequently increased tenfold, the council pointed out. The market was returning to normality and demand was holding up well, it said in its latest Gold Demand Trends publication.

The markets monitored by the council represent about 75 per cent of total world demand.

Among the price-sensitive "developing markets" demand in India was down from 153.1 tonnes in the first quarter of 1993 to 82.5 tonnes this year; in "Greater China" – which includes Hong Kong and Taiwan – it was down from 166.8 to 103.3 tonnes; and in the Gulf states it fell from 73 to 49.6 tonnes. In Turkey, where the market was hit by political uncertainty and devaluation of the local currency, demand fell from 32.7 to 12 tonnes.

In the developed markets, demand in the US was flat, at 57.5 tonnes compared with 58.8 tonnes, while in Japan it fell from 55.2 to 49.1 tonnes. Most European markets were flat in the first quarter except for Italy, also affected by political uncertainties, where demand fell from 20 to 17.1 tonnes.

Firestone man to take over as rubber buffer stock manager

By Kieran Cooke in Kuala Lumpur

Mr James Hegarty, a senior manager at the US Firestone Tire and Rubber company, has been named as the new buffer stock manager of the International Natural Rubber Organisation.

He replaces Mr Aldo Hofmeister, who retires in August after nearly nine years with Inro. The organisation groups the six main natural rubber producing countries and 21 consumer nations.

At a meeting here this week Inro members agreed to request for a further conference, held under Unctad auspices, to discuss the formation of a new International Natural Rubber Agreement. The conference is likely to be held in Geneva during the first two weeks of October.

Despite a rally in natural rubber prices in recent months Malaysia's production has continued to fall as further land is given over to industrial uses or planted with the more lucrative palm oil. The Malaysian statistics department says that the country's natural rubber production was 241,202 tonnes in the first quarter of the year, a drop of 18 per cent on the 1993 figure.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

	Cash	3 mths
ALUMINIUM, 99.7 PURITY ($ per tonne)		
Close	1338-9	1368-8.5
Previous	1342-3	1372-3
High/low	1338.5	1369/1362
AM Official	1338.5-39	1368.5-9.0
Kerb close		1366-7
Open int.	252,776	
Total daily turnover	45,165	
ALUMINIUM ALLOY ($ per tonne)		
Close	1350-5	1350-5
Previous	1345-55	1350-55
High/low	1351	
AM Official	1351-5	1350-5
Kerb close		1345-55
Open int.	3,766	
Total daily turnover	1,010	
LEAD ($ per tonne)		
Close	483-4	501-2
Previous	486.5-7.5	504-5
High/low	481	504/498
AM Official	481-2	498-9
Kerb close		502-3
Open int.	36,994	
Total daily turnover	7,751	
NICKEL ($ per tonne)		
Close	6480-90	6575-80
Previous	6630-40	6720-30
High/low		6660/6510
AM Official	6525-30	6625-35
Kerb close		6550-60
Open int.	53,809	
Total daily turnover	22,456	
TIN ($ per tonne)		
Close	5545-55	5625-35
Previous	5555-65	5630-35
High/low		5670/5570
AM Official	5560-70	5640-50
Kerb close		5620-30
Open int.	16,460	
Total daily turnover	4,531	
ZINC, special high grade ($ per tonne)		
Close	952-3	977-8
Previous	968.5-9.5	994.5-5.0
High/low	958/957	991/972
AM Official	958-9	984.5-5.0
Kerb close		974-5
Open int.	102,874	
Total daily turnover	18,996	
COPPER, grade A ($ per tonne)		
Close	2271-2	2276-80
Previous	2296-8	2296-7
High/low		2308/2262
AM Official	2287-9	2295-6
Kerb close		2274-5
Open int.	213,410	
Total daily turnover	87,955	

LME AM Official £/$ rate: 1.5065
LME Closing £/$ rate: 1.5125

[illegible]

HIGH GRADE COPPER (COMEX)

[illegible]

PRECIOUS METALS

LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

[illegible]

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

[illegible]

PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

[illegible]

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

[illegible]

SILVER COMEX (100 Troy oz.; Cents/troy oz.)

[illegible]

ENERGY

CRUDE OIL NYMEX (42,000 US galls. $/barrel)

[illegible]

CRUDE OIL IPE ($/barrel)

[illegible]

HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GAS OIL IPE ($/tonne)

[illegible]

NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

WHEAT LCE (£ per tonne)

[illegible]

WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

BARLEY LCE (£ per tonne)

[illegible]

SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

POTATOES LCE (£/tonne)

[illegible]

FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

Cotton

[illegible]

SOFTS

COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
May	983	-65	1000	985	35	37
Jul	1024	-42	1041	1009	22,149	4,456

[illegible]

COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

COCOA (ICCO) (SDR's/tonne)

[illegible]

COFFEE LCE ($/tonne)

[illegible]

COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

COFFEE (ICO) (US cents/pound)

[illegible]

No7 PREMIUM RAW SUGAR LCE (cents/lbs)

[illegible]

WHITE SUGAR LCE ($/tonne)

[illegible]

SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

REUTERS (Base: 18/9/31=100)

[illegible]

CRB Futures (Base: 4/9/56=100)

[illegible]

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	62.475	-1.500	64.150	62.475	23,658	8,209
Aug	63.325	-1.500	64.975	63.325	23,082	6,409
Oct	65.950	-1.500	67.550	65.950	12,919	1,494
Dec	67.400	-1.500	68.950	67.400	9,085	1,163
Feb	68.100	-1.500	69.750	68.100	5,249	254
Apr	69.700	-1.500	71.200	69.700	2,708	139
Total					77,178	17,894

LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	47.050	-1.175	48.200	46.900	9,628	2,668
Jul	47.375	-1.425	48.475	47.350	9,297	2,590
Aug	45.960	-1.350	47.050	45.900	4,748	1,090
Oct	42.775	-0.800	43.550	42.625	2,755	226
Dec	43.750	-0.825	44.400	43.550	2,840	209
Feb	43.800	-0.625	44.300	43.700	652	88
Total					30,321	6,895

PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	41.625	-1.775	43.150	41.400	133	38
Aug	40.800	-1.250	42.100	40.450	5,675	1,897
Feb	50.750	-1.325	51.550	50.450	2,025	487
Mar	50.075	-1.325	50.300	50.075	314	152
May	53.250	-1.250	-	53.250	25	1
Jul	54.000	-	-	-	30	1
Total					8,288	2,576

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

ALUMINIUM (99.7%) LME	Aug	Nov	Aug	Nov
1325	67	100	26	37
1375	41	72	51	58
1425	23	50	82	85
COPPER (Grade A) LME	**Aug**	**Nov**	**Aug**	**Nov**
2200	127	123	52	83
2250	98	98	96	107
2300	74	78	74	135
COFFEE LCE	**Jul**	**Sep**	**Jul**	**Sep**
1800	414	449	7	72
1850	368	414	11	87
1900	324	381	17	104
COCOA LCE	**Jul**	**Sep**	**Jul**	**Sep**
900	127	153	3	11
925	104	133	5	16
950	83	114	9	22
BRENT CRUDE IPE	**Jul**	**Aug**	**Jul**	**Aug**
1500	86	-	4	20
1550	47	-	11	-
1600	27	65	30	44

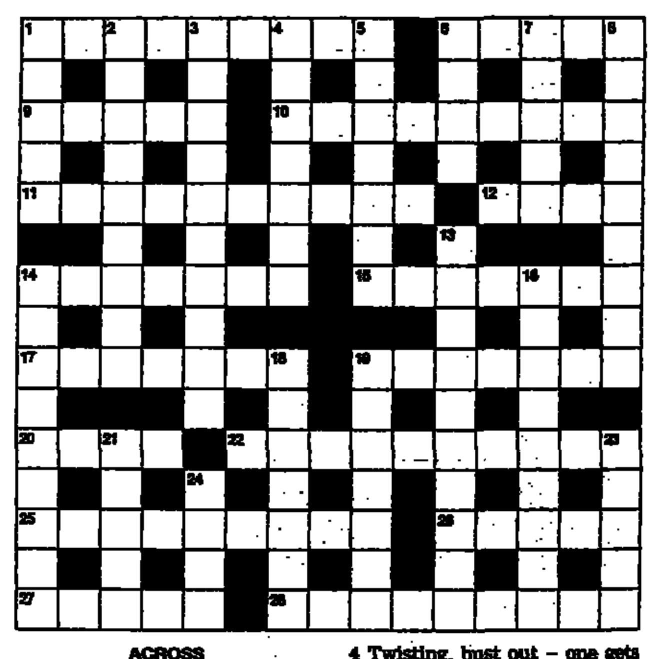
LONDON SPOT MARKETS

CRUDE OIL FOB (per barrel/Jul)		+or-
Dubai	$14.87-4.92w	-0.18
Brent Blend (dated)	$16.26-6.29	-0.265
Brent Blend (Jul)	$16.21-6.23	-0.18
W.T.I. (1pm est)	$17.78-7.80w	-0.22
OIL PRODUCTS NWEprompt delivery CIF (tonne)		
Premium Gasoline	$181-183	
Gas Oil	$150-151	+1
Heavy Fuel Oil	$82-84	-1
Naphtha	$157-158	-0.5
Jet Fuel	$160-161	
Petroleum Argus Estimates		
OTHER		
Gold (per troy oz)♣	$387.45	+1.20
Silver (per troy oz)♣	562.50c	-2.0
Platinum (per troy oz.)	$405.10	-2.40
Palladium (per troy oz.)	$136.65	-0.85
Copper (US prod.)	111.00c	
Lead (US prod.)	35.00c	
Tin (Kuala Lumpur)	Unq	
Tin (New York)	257.50c	
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	127.08p	-1.19*
Sheep (live weight)†♠	133.55p	-14.62*
Pigs (live weight)	88.26p	+2.66*
Lon. day sugar (raw)	$285.4	-6.8
Lon. day sugar (wte)	$358.0	-4.0
Tate & Lyle export	£301.0	-5.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	$140.0	
Wheat (US Dark North)	£185.0	
Rubber (Jul)♥	70.25p	-0.75
Rubber (Aug)♥	70.50p	-
Rubber(KL RSS No1 Jun)	253.00m	
Coconut Oil (Phil)§	$635.0z	+5.0
Palm Oil (Malay.)§	$490.0y	-15.0
Copra (Phil)§	$397.0	
Soyabeans (US)	£192.0z	-3
Cotton Outlook A Index	88.80c	
Wooltops (64s Super)	426p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Jun/Jul. y Jun. w Jul. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

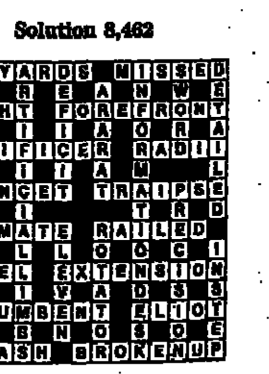
No.8,463 Set by DOGBERRY



ACROSS
1 Backward marsupials allowed in by legal expert (9)
6 Shoot puritans back to front (5)
9 Instrument of gold and jade turned over (5)
10 Playing dice with a girl like Clytemnestra (9)
11 One who 13s with dung (10)
12 Pianoforte concealing the foreign money (4)
14 Affected, entering peak and separating (7)
15 Like teacher receiving junk mail (7)
17 Bit of wood containing decoration in London (7)
19 Extraordinary reflection, say, on northern arts (7)
20 Growth contributing to Patsy Cline's comeback (4)
22 Prospective partner performing dirge in the undergrowth (10)
25 The sap of spring? (5,4)
26 Second woman about to turn to crime (5)
27 Flower not quite at the back (5)
28 Operated lever in the cape without feeling (9)

DOWN
1 Mock gorge (5)
2 It's important for mathematicians to record a pulse, they say (9)
3 May I not manipulate support? (10)
4 Twisting, bust out – one gets the point (7)
5 Senior holding fabric up may take a step back (7)
6 Dismiss plunder (4)
7 Spine chiller (topless) (5)
8 Feel cargo shifting in such conditions (4,5)
13 Imbue with rising ire in irregular tempi (10)
14 Many a party turning molten stuff into helmet (9)
16 Force to drive out into road for some seafood (9)
18 Marx on fishing gear (7)
19 Furnisher of seats not so pleased about laptop (7)
21 Show off prop (5)
23 Less major road before sunrise (5)
24 Drunkenly utter calumny (4)

Solution 8,462



JOTTER PAD

MARKET REPORT

Footsie falls 2.2 per cent to new low for 1994

By Terry Byland, UK Stock Market Editor

London had no choice but to join in the setback in securities markets across Europe yesterday as this week's growing fear that the fall in German interest rates may be over drove investors out of equities. The FT-SE 100 Index fell 68.4 points to 3,020.7, a new low for the year and a loss of 2.2 per cent on the day. Weakness in the US dollar gave a further blow to international blue chip stocks at the close of the session.

Trading volume increased sharply, but remained below peak levels as marketmakers struggled to cut share prices before the sellers could strike. Once the important 3,050 mark on the Footsie was lost, several computer-led sales programmes opened in the stock index futures market and the collapse in prices rapidly increased. Across the broader market, shares fell away sharply to record a loss of 62 points on the FT-SE Mid 250 Index which ended the day at 3,629.4, a fall of about 1.7 per cent.

Equities opened firmly, helped by Wall Street's steadiness overnight. First quarter figures on UK gross domestic product, showing a modest rise of 0.7 per cent, were comfortably taken and the stock market remained in positive territory for the first hour of official trading.

However, British government bond prices began to slide in sympathy with other European bond markets and UK stocks turned off in their wake. The setback was modest at first, however, despite the disappointingly small reduction in rates at the weekly Bundesbank repo auction.

Account Dealing Dates		
*First Dealings:		
May 16	Jun 6	Jun 20
Option Declarations:		
Jun 2	Jun 16	Jun 30
Last Dealings:		
Jun 3	Jun 17	Jul 1
Account Day:		
Jun 13	Jun 27	Jul 11

*New time dealings may take place from two business days earlier.

The blow fell at mid-session when it was disclosed that the Bundesbank had cancelled a note auction because of lack of demand for its paper in the German market. Bonds began to fall in earnest and losses in share prices increased dramatically as the UK market absorbed the possibility that domestic interest rates might be forced higher much sooner than expected.

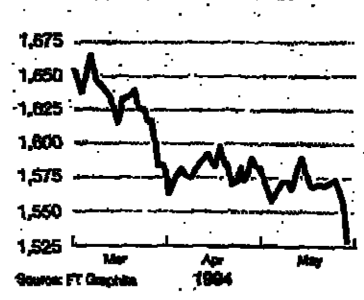
At worst, the Footsie was down by 77.8 at 3,011.3 as traders began to assess the prospects for Wall Street. But US durable goods orders data for April turned out to be less threatening than feared and UK stocks tried to rally. The recovery was very slight indeed, because Wall Street remained 15 Dow points off in UK trading hours, with Federal bonds also lower.

Seaq volume reached 646.1m shares, compared with 555.8m in the previous session; Tuesday's equity business was worth £1.23bn in retail value.

The rout in the market swept all sectors along with it. Hard hit were the merchant banks which earn their profits in securities markets and also hold their assets in the form of shares and bonds. With markets heavily down across the global range, international – such as Reuters, HSBC, RTZ, BP and Shell – were all under pressure as London traders waited to see how Wall Street would perform.

Market strategists expressed significant concern over the outlook for the UK market now that it has plunged below the 3,050 support level. If selling continues into next week, the Footsie could be at risk of another fall of 70 points or more, according to the equity chart analysts. The UK markets are regarded as trapped between other European bourses, which are threatened by the apparent shift of stance at the Bundesbank, and Wall Street which is now perceived to be in danger of a further tightening of the credit screws by the Federal Reserve.

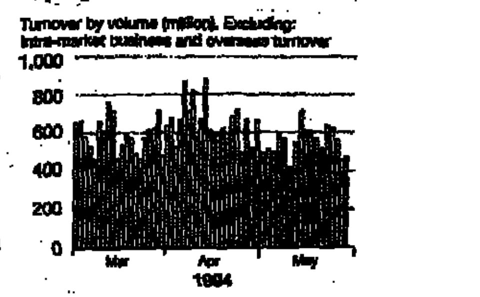
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3020.7	-68.4
FT-SE Mid 250	3629.4	-62.0
FT-SE-A 350	1532.6	-32.7
FT-SE-A All-Share	1526.62	-31.00
FT-SE-A All-Share yield	3.84	(3.76)
FT Ordinary index	2398.8	-47.1
FT-SE-A Non Fins p/e	19.56	(19.89)
FT-SE 100 Fut Jun	2999.0	-98.0
10 yr Gilt yield	8.32	8.17
Long gilt/equity yld ratio:	2.23	2.22

Best performing sectors

1. Property .... -0.3
2. Other Ser & Bus .... -0.4
3. Chemicals .... -0.6
4. FT-SE SmallCap ex ITs .... -0.7
5. Gas Distribution .... -0.7

Worst performing sectors

1. Media .... -3.3
2. Leisure & Hotels .... -3.1
3. Extractive Inds .... -3.1
4. Insurance .... -2.9
5. Tobacco .... -2.8

Bumper cash call expected

Strong speculation that Channel tunnel operator Eurotunnel would launch its long-awaited £850m rights issue today swept through the market.

Dealers suggested that the issue would be at a deep discount to the current share prices with the best estimates pointing to a three-for-five at 270p a share issue.

Rumours of the rights issue came as Eurotunnel announced that it had secured additional financing from its creditor banks. The shares, which had followed the market lower, clawed back some of the earlier losses to finish 5 down at 355p on the news, on volume of 1.3m.

The company's broker and merchant bank were said to have done the rounds of institutions over the last three days in a bid to ensure that the issue was underwritten.

However, one market watcher said: "They thought they could get it away with only a 20 per cent discount but no one would take it at that price. It had to be in the region of a 30 per cent discount for any chance of success."

Warburg retreats

The sudden collapse of stock and bond markets around the world wiped out an early big gain in SG Warburg shares, the only merchant bank in the FT-SE 100 list and, ironically, one of the most important bond and equity trading houses in London.

Early in the session Warburg had rocketed to 740p in the wake of doubled preliminary profits, which was towards the top end of the range of market estimates. The near 16 per cent dividend increase was in line with market forecasts. But by the end of a turbulent session Warburg shares had retreated to 694p before closing 4 down on balance at 699p as dealers became increasingly worried by the slide in international markets.

The early surge in the shares came amid relief that Warburg had managed to avoid any big losses resulting from the volatility and overall weakness in world markets following the decision by the US Federal Reserve to tighten monetary policy early in February.

One merchant banking specialist said there was a big question mark over the sustainability of earnings at SG Warburg. "Warburg relies very much on earnings from flotations and rights issues which are very much reliant on a strong equity market. If the market collapses so does the earnings stream at Warburg and the other merchant banks."

The candidates involved in the bid for the National Lottery suffered a mixed reaction to the mid-morning news that the Camelot consortium – which includes De La Rue, Cadbury Schweppes and Racal – had won the franchise.

Racal shares bounded away on the news, ending the day 13 ahead at 238p. Smith New Court estimates that Racal will be the biggest winner from the contest, its earnings potential boosted by 22 per cent. De La Rue shares closed 3 up at 830p, although dealers said this was as much in reaction to several weeks of weakness – the stock stood at 1021p two months ago – as to the lottery result. Smith has pencilled in a potential 9 per cent earnings boost for the printing group and 3 per cent for Cadbury. Its shares retreated 13 to 479p.

Among the losing candidates, Carlton Communications slid 22 to 901p, a solid set of results notwithstanding. BZW inched up its 1995 forecast to £179m and reiterated its positive stance. Ladbroke ended three days of weakness following Monday's veiled profits warning more steadily, the shares off 3½ at 172½p. MAI lost 13 to 249p, Granada remained friendless, finishing 18 off at 480p, while Rank Organisation tumbled 25 to 380p.

A hefty jump in the net asset value of Land Securities helped the shares remain one of the few shades of blue among the FTSE 100 stocks. The market had been predicting an NAV range of 630p-660p, so Land's 677p saw the shares leap to an immediate 20p premium. They later came back with the market to close 2½ up at 663p on turnover of 3.4m. James Capel, long-term bulls of the property sector, are forecasting an NAV for next year of 790p.

Widespread talk around the market that the sudden collapse in world markets had caught some of the big market operators on the wrong foot, triggering potentially huge trading losses, unsettled all the big clearing banks and the merchant banks.

Among the clearers Barclays, 527p, and NatWest, 439p, which control two of the UK's biggest institutional broking firms, BZW and NatWest Securities, dipped 14 and 12½ respectively, while HSBC, which only on Tuesday said reports it had made big losses in bond trading were inaccurate, fell 24 to 725p.

The insurance broking sector endured more pain after the recent dismal profits performances with US investors said to have been steady sellers of Willis Corroon and responsible for driving the shares down 12 more to 169p, their lowest level since September 1992.

Chemicals group Courtaulds was among a handful of FT-SE 100 constituents to remain in positive territory during an difficult trading session, with the company's shares bolstered by a 6 per cent increase in the dividend total. At the close Courtaulds shares were unchanged at 527p.

A fall in profits at Argyll Group added to the pressure on the shares in a weak food retail sector. The company said a disappointing performance from its Lo-Cost chain was partly to blame and remained cautious over the trading outlook. Argyll shares fell 9 to 239p.

Good results from Morland helped the regional brewer forward 10 to 518p.

A shift of stance from BZW, the investment bank, was an additional burden on the building materials sector. BZW shifted from overweight to neutral in the sector, highlighting Blue Circle as "fully valued" and therefore a "sell". BCI lost 5 to 302p.

BOC was one of the five FT-SE 100 constituents to resist the market's sudden decline, the shares closing 2 harder at 730p following the recent excellent results and subsequent broker recommendations.

Shares in engineering group Glynwed International held up well, closing a penny lower at 358p after a two-day visit to the company by institutions and analysts. Smith New Court and Panmure Gordon were reported positive on the stock.

MARKET REPORTERS: Steve Thompson, Christopher Price, Joel Kibazo.

■ Other statistics, Page 23

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (32). BANKS (1) Mitsui Tst. & Bkg., BUILDING & CNSTRN (1) Jackson, BLDG MATLS & MCHTS (2) Ensor, Halstead (J), Johnson, ELECTRNC & ELECT EQUIP (4) Arcolectric A, CAL, Microsystems, Mitsubishi, Plasmec, ENGINEERING (6) Expamet Intl., Ferrum, Kalsey, Symonds, Torday & Carlisle, EXTRACTIVE INDS (4) Ashanti, Cons. Murchison, Kidston, INSURANCE (1) American Intl, INVESTMENT TRUSTS (4) INVESTMENT COMPANIES (1) MEDIA (3) CIA, Dorling Kindersley, Euromoney Publ., OIL EXPLORATION & PROD (1) PROPERTY (1) Davies (DY), RETAILERS, GENERAL (3) Austin Reed, Liberty, Do NV, SOUTH AFRICANS (1).

NEW LOWS (275). GILTS (8) OTHER FIXED INTEREST (5) BANKS (6) ANZ, Abbey Natl., Anglo Irish, Bank Scotland, Deutsche Bank, BREWERIES (1) Bass, BUILDING & CNSTRN (8) Donelon Tyson, EBC, Higgs & Hill, Persimmon, Wimpey (G), BLDG MATLS & MCHTS (10) CHEMICALS (7) Camberone, DISTRIBUTORS (5) Diploma, Elect'comps, Farnell, Gardiner, Inchcape, DIVERSIFIED INDLS (6) ELECTRNC & ELECT EQUIP (8) BICC Cap, Fin. 10%pc Bds. 2020, Blick, Gerseby, Johnson, Kenwood, ENGINEERING (8) ENG. VEHICLES (1) Sytone, EXTRACTIVE INDS (2) Andaman, English China Clays, FOOD MANUF (4) Booker, Dalgety, Unilever, Do NV, HEALTH CARE (8) HOUSEHOLD GOODS (3) Airsprung Furniture, Black (P), Jayes, INSURANCE (8) INVESTMENT TRUSTS (91) INVESTMENT COMPANIES (7) LEISURE & HOTELS (4) Granada, Do 7.5p (Net) Prf., Rank, Do 8¼p (Net) Prf., LIFE ASSURANCE (8) MEDIA (8) Carlton Comms. 5.5p Prf., CentreGold, Mirror, On Demand Info, Pearson, United Newspapers, MERCHANT BANKS (1) [illegible]

EQUITY FUTURES AND OPTIONS TRADING

Stock index futures crashed through the 3,000 barrier to trade at a sharp discount to the cash market as dealers reacted to the strong setback in European bond markets, *writes Joel Kibazo.*

After opening at 3,078, the June contract on the FT-SE 100 briefly moved ahead to touch 3,091. This turned out to be the high of the day.

However, the contract soon succumbed to active selling said to have been led by brokers Mantrad and Fimat, with one of them reported to have been a seller of 5,000 lots.

The slide was attributed to talk that there would be no further reductions in interest rates. This not only sent led to the decline of the contract but also pulled the underlying cash market lower. The decline of the US dollar was also said to have played a part in the day's fall.

At the day's low, June traded at 2,998 but steadied to close at 2,999, a day's fall of 79 points and around 18 points below its fair value premium to cash of about minus 3. Volume improved sharply to reach 25,099.

The traded options also saw heavy volume as a total of 53,800 contracts were dealt. The FT-SE 100 option was particularly busy, trading 26,382 lots by the close.

Land Securities was the most active stock option with a total of 3,372 contracts.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3078.0	2999.0	-78.0	3091.0	2998.0	25241	49462
Sep	3097.0	3014.5	-78.5	3101.0	3017.0	1370	5191
Dec	3099.0	3024.0	-78.0	3099.0	3099.0	20	251

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3670.0	3600.0	-70.0	3670.0	3610.0	-	-
Sep	3687.0	3617.0	-70.0	3687.0	3687.0	-	-

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3685.0	3600.0					771

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3015) £10 per full index point

	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P	3200 C	3200 P
Jun	186	9½	118½	18½	82	32	62	53½	38½	83½	18	118	7½	160½	3	209½
Jul	180½	25	143	39	106	54	80	78	58	102½	38½	134	23½	172½	13½	215½
Aug	208½	43	169	55½	135	72½	104½	93	78	119	57	146½	40½	184	28½	222½
Sep	232	53½	178	63	149½	83½	121	105	96	131½	74½	160½	55	193½	40	230½
Dec†			216½	101			158	140			112	192			72½	254

Calls 14,531 Puts 11,274

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	2825 C	2825 P	2875 C	2875 P	2925 C	2925 P	2975 C	2975 P	3025 C	3025 P	3075 C	3075 P	3125 C	3125 P	3175 C	3175 P
Jun	182½	6½	138½	13	98½	24½	65½	42½	38½	64½	21	98½	11	136½	4½	179½
Jul	197½	17½	158½	29½	122	41½	92	61	64½	83½	45	113½	28½	148½	16½	186
Aug	216	31½			143	57			86	98½			49½	158		
Sep	228½	42			159½	71½			102½	113			69	188½		
Dec†	267½	74			201	104½			144	145			98	197		

Calls 2,225 Puts 3,736 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3700		3750		3800		3850		3900		3950		4000		4050	
Jun	23	115	13		7½		4									

Calls 0 Puts 0 Settlement prices and volumes are taken at 4.30pm.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	4,000	58¼	-1
Abbey National†	3,900	369½	-13½
Albert Fisher	2,000	55	-2
Allied-Lyons†	1,700	575	-12
Anglian Water	196	487	-12
Argos	1,200	349	-10
Argyll Group†	8,100	239	-9½
Arjo Wiggins†	3,900	288	-9
Assoc. Brit. Foods†	657	580	-3
Assoc. Brit. Ports	243	258	-4
BAA†	865	926	-23
BAT Inds.†	3,900	421	-12
BET	5,400	125	-5½
BICC	566	425	-2
BOC†	1,400	730	+2
BP†	11,000	394	-6½
BPB Inds.	1,000	289	-13
BT†	7,800	377½	-6½
BT (Pt Paid)	9,000	259½	-7
BTR†	4,200	382	-9
Bank of Scotland†	844	176	-5
Barclays†	2,400	527	-14
Bass†	2,800	511	-8
Blue Circle†	3,300	302	-5
Booker	676	384	-9
Boots†	1,100	520	-19
Bowater†	2,500	421	-13
Brit. Aerospace†	2,100	463	-10
British Airways†	3,700	386	-1
British Gas†	6,800	280½	-2
British Land	577	366	-8
British Steel†	3,400	139¼	-2¼
Bunzl	550	182	-4
Burmah Castrol†	1,600	871	-10
Burton	5,100	59½	+½
Cable & Wire†	4,100	446	-6
Cadbury Schweppes†	3,000	479	-13
Calor Group	67	305	
Caradon†	2,400	320	-6
Carlton Comms.†	3,700	901	-22
Coats Viyella†	2,700	227	-8
Comm. Union†	1,800	543	-15
Cookson	1,000	255	-12
Courtaulds†	2,100	527	
Dalgety	422	438	-8
De La Rue†	816	830	+3
Dixons	2,800	188	-9
Eastern Elect.	382	597	-5
East Midland Elect.	865	593	+2
Eng China Clays	889	422	-16
Enterprise Oil†	1,600	410	-7
Eurotunnel Units	1,300	355	-5
FKI	673	175½	-8½
Fisons	2,600	141	+2
Foreign & Col. I.T.	3,000	187	-3¼
Forte†	17,100	234	-2
Gen. Accident†	1,100	540	-16
General Elect.†	5,000	314	-5
Glaxo†	3,600	538	-11
Glynwed	495	358	-1
Granada†	4,400	480	-18
Grand Met.†	2,600	438	-12½
GUS†	2,900	600	-13
GRE†	2,000	185	-1
GKN	669	572	-16
Guinness†	4,900	476	-10
HSBC (75p shs)†	4,200	725	-24
Hammerson	291	360	-9
Hanson†	7,800	258½	-4½
Harrisons Crosfield	1,200	179	-6½
Hays	60	294½	-4½
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

FT - SE Actuaries Share Indices — The UK Series

	May 25	Day's chge%	May 24	May 23	May 20	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3020.7	-2.2	3089.1	3108.4	3127.3	2846.9	4.07	6.85	17.46	40.79	1124.04
FT-SE Mid 250	3629.4	-1.7	3691.4	3709.3	3714.6	3175.5	3.40	5.59	21.74	40.68	1333.26
FT-SE Mid 250 ex Inv Trusts	3638.3	-1.7	3700.7	3718.4	3723.9	3196.6	3.54	6.09	20.34	41.40	1332.47
FT-SE-A 350	1532.6	-2.1	1565.3	1574.6	1582.4	1420.1	3.91	6.55	18.31	19.67	1167.20
FT-SE SmallCap	[illegible]										
FT-SE SmallCap ex Inv Trusts	[illegible]										
FT-SE-A ALL-SHARE	1526.62	-2.0	[illegible]				3.84				

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. [illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

[illegible]

FT GOLD MINES INDEX

[illegible]

RISES AND FALLS YESTERDAY

[illegible]

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	May 23	Last Declarations	Sept 1
Last Dealings	June 10	For settlement	Sept 12

Calls: [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FINANCIAL TIMES EQUITY INDICES

[illegible]

LONDON SHARE SERVICE

BANKS

	Notes	Price	+ or -	1994 High	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£21¾	-⅛	£25¼	£21⅛	6,422	5.1	Φ
ANZ A$		214	-13½	278½	214	2,847	4.2	16.8
Abbey National		389½	-13½	523	389½	5,118	4.5	13.1
Allied Irish I£		242	-5	314	241	1,294	5.2	9.3
Anglo Irish I£		52	-1	70	52	178.9	8.5	9.3
Asahi Y		735	-1¼	759¼	628	17,068	0.7	–
Banco Bil Viz Pta		£15⅞	+⅛	£16⅞	£14⅛	3,688	5.2	7.2
Banco Sant Pta		£30⅛	—	£34⅝	£29⅛	3,388	4.5	Φ
Bk Ireland I£		251xd	-9	319	246	1,183	6.0	Φ
Bank Scotland		178xd	-5	247	174	2,860	3.5	14.4
9¼pc Pf		118¾xd	-1¼	141½	115¾	118.2	9.8	–
9¾pc Pf		123¾xd	-1¾	148½	122	123.8	9.8	–
Barclays		527	-14	640	487	8,574	3.8	21.8
Dai Ichi Kan Y		£12⅞	+⅛	£12⅞	£10⅛	38,644	0.4	70.1
Deutsche DM		£296⅛	-5⅝	£344¼	£296	14,107	2.0	–
Espirito Santo		£19⅛	-⅛	£28⅛	£18¼	207.0	4.1	4.7
First Nat Fin		75	-1	90	60	124.3	2.6	–
6.3pc Cv Pf		84	—	90	77	6.65	9.4	–
7pc Cv Pf		148½	-1½	171	123	69.5	6.0	–
Fuji Bank Y		1506	-5¼	1549¼	1152½	43,088	0.4	–
HSBC HK		747	-22	1133	687	13,117	3.9	12.9
HSBC (75p Shs)		725xd	-24	1113	668	6,133	4.1	12.5
Lloyds		551	-11	660	532	7,187	5.0	11.8
Mitsubishi Y		£17⅞	-⅛	£18⅞	£15⅝	50,638	0.3	–
Mits Tst & Bk Y		1023¼	+11	1045	887½	13,328	0.5	18.4
Mitsui Tst & Bk Y		814¼	+13	815¼	514	9,768	0.7	27.7
Nat Aust A$		572½	-16¼	680¼	507¼	7,696	4.2	13.6
NatWest		436	-12½	622	434	7,305	5.3	10.0
Ottomane FFr		225xd	—	233	225	125.0	5.8	Φ

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28½	—	£28½	£13½	1,682	2.8	19.4
Barlow		[illegible]	-½	[illegible]	[illegible]	[illegible]	8.6	9.1
Gold Flds Prop R		[illegible]	+4	105	78	10.9	10.2	8.7
MK Props	§	[illegible]	—	[illegible]	87	3.82	9.9	37.0
SASOL	♥	[illegible]	+23	[illegible]	280	1,887	4.7	–
SA Brews		£[illegible]	[illegible]	£[illegible]	£10	7,313	2.0	22.4
Tiger Oats	†	[illegible]	—	[illegible]	538	1,033	2.3	14.4
Tongaat-Hulett	†	647	+16	647	434	484.2	2.3	18.0

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the price column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

[illegible]

q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings.

[illegible] official estimates for 1993. K Yield based on prospectus or other official estimates for 1994. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for [illegible]

[illegible] W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1[illegible] a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT6710. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Thornton Unit Managers Ltd (1200)F

Waverley Unit Tst Mngmt Ltd (1000)F

Whittingdale Unit Tst Mngmt Ltd (0830)F

Woolwich Unit Trust Managers Ltd (1700)H

OTHER UK UNIT TRUSTS

INSURANCES

Abbey Life Assurance Co Ltd

Abbey National Life Plc

Acuma Life Assurance Ltd

Canada Life Group

City of Westminster Assurance Co Ltd

Eurolife Assurance Company Ltd

Homeowners Friendly Society Limited - Contd.

M & G Life and M & G Pensions - Contd.

National Westminster Life Assce Ltd - Contd.

Prudential Corporate Pension Funds - Contd.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Royal Bank of Canada Int'l Fd Mgt Ltd

Royal Bk of Scotland Fd Mngrs (Jersey) Ltd

Schroder Mngt Services (Jersey) Ltd

TSB Trust Funds (CI)

Warburg Asset Management Jersey Ltd

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Fleming Group (u)

LUXEMBOURG (REGULATED)(**)

Global Funds Management S.A. (u)

Union Financial Services SA Lux

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

Jardine Fleming Unit Trusts Ltd - Contd.

Pelican Embassy Funds Ltd

CURRENCIES AND MONEY

MARKETS REPORT

Dollar weakens again

The dollar's recovery on the foreign exchanges proved shortlived yesterday as the US currency came under renewed pressure from a stronger D-Mark, *writes Philip Gawith.*

The agreement on Tuesday to restart the US-Japan trade talks had bolstered the US currency, but weaker than expected April durable goods figures were the catalyst for a steady weakening of the dollar.

The dollar finished in London at DM1.6447 against the D-Mark, from DM1.6478 on Tuesday and an intra-day high of DM1.6545. It was barely changed against the yen at Y104.455.

Activity was generally fairly quiet until the dollar started to weaken in the European afternoon. Apart from generalised D-Mark strength, the features of Europe were the weaker lira, the Portuguese escudo coming under pressure again, and the firm Greek drachma.

The futures markets were again very volatile, with most of the movement in eurosterling. Sterling had a steady day with the sterling index finishing at 80 from 79.9 as strength against the dollar offset weakness against the D-Mark.

■ US April durable goods orders were only 0.1 per cent up in April, compared to market expectations in the 0.8 per cent to 1.5 per cent range. Although durable goods figures are not normally closely watched, the disappointment was sufficient to deflate whatever thin veneer of optimism had come to surround the dollar.

Contributing to the dollar's difficulties was a general firming of sentiment towards the D-Mark. The catalyst for this was the fairly small fall of only three basis points in the German repo rate, to 5.20 per cent. Although widely expected, it appeared to confirm recent comments from Mr Hans Tietmeyer, president of the Bundesbank, suggesting that the pace of German monetary easing would slow.

These sentiments were further strengthened by comments from two senior Bundesbank figures yesterday. Mr Otmar Issing was quoted in a German business daily saying that "current money supply figures did not match a landscape of falling interest rates." M3 grew at a seasonally adjusted, annualised rate of 15.8 per cent in April.

Mr Reimut Jochimsen, a central council member, was also quoted expressing concern about differences between Bundesbank policies and government fiscal policy.

Some analysts believe the D-Mark is being re-rated by the market as economists upgrade their forecasts of German growth. Yesterday the German currency had a mixed performance in Europe, finishing at FFr3.421 against the French franc from FFr3.422.

■ The escudo returned to market attention yesterday with the Bank of Portugal forced to step in to support the currency when it fell below Es104 against the D-Mark. Dealers said a series of rumours about alleged crises were undermining sentiment, while the currency also seemed to be acting in sympathy with the weaker bond market.

In Greece, by contrast, the drachma had a steady day despite the overnight downgrading of Greece's senior foreign currency debt by the rating agency Moody's.

Ms Wendy Niffikeer, senior economist at IBJ International in London said she believed the worst was probably past for the Greek currency. "If there was going to be a serious crisis, it would have happened by now," she said.

Last week many in the market were predicting a devaluation. The short term aim of the Greek government, some analysts argue, is to try and support the drachma through the European elections, and until Greece hands over the presidency of the European Union.

The lira was weak yesterday, closing at L969 against the D-Mark from L965. Analysts said this was probably a function of heightened political uncertainty following the announcement that Mr Umberto Bossi, the Northern League leader, would have to appear in court.

■ The futures markets enjoyed another hectic day. Trade in the euromark futures was again heavy, with the December contract trading over 57,000 lots. Price movement, however, was fairly sedate after the recent gyrations, with the December contract closing unchanged at 94.77.

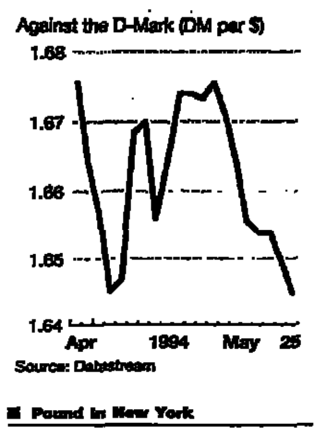
Trade was fairly heavy in eurosterling too, with the December future trading nearly 34,000 lots, and closing fifteen basis points lower at 93.80. Analysts said it was difficult to make sense of the move, which appeared to flow from weakness at the longer end of the yield curve. A lot of the selling was technically driven as price falls triggered various chart points.

■ The Bank of England provided £525m of late assistance to the UK money markets after predicting a £750m shortage. The Bank had earlier provided £76m liquidity to the market. Overnight rates moved between 4⅞ per cent and 6⅞ per cent.

In the German money markets call money rates eased to 5.25/5.35 per cent from 5.30/5.40 per cent after the Bundesbank added a net DM7.5bn in its money market operations.

Dollar

Against the D-Mark (DM per $)



Source: Datastream

■ **Pound in New York**

May 25	Latest	Prev. close
£ spot	1.5090	1.5055
1 mth	1.5081	1.5046
3 mth	1.5069	1.5033
1 yr	1.5047	1.5014

■ **OTHER CURRENCIES**

May 25	£	$
Hungary	155.023 - 155.246	102.630 - 102.730
Iran	2628.00 - 2634.00	1748.00 - 1750.00
Kuwait	0.4497 - 0.4511	0.2977 - 0.2985
Poland	33880.5 - 33958.7	22430.0 - 22470.0
Russia	2863.16 - 2870.71	1895.00 - 1900.00
U.A.E.	5.5473 - 5.5503	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

May 25		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.4769	-0.0018	699 - 845	17.5428	17.4505	17.473	0.3	17.4674	0.2	-	-	114.1
Belgium	(BFr)	51.1385	-0.0416	047 - 723	51.3070	51.0800	51.1335	0.1	51.1335	0.0	50.9635	0.5	113.4
Denmark	(DKr)	9.7261	-0.0097	201 - 321	9.7675	9.7200	9.7337	-0.9	9.7419	-0.6	9.7593	-0.3	115.6
Finland	(FM)	8.1756	+0.022	665 - 851	8.1970	8.1330	-	-	-	-	-	-	81.2
France	(FFr)	8.4860	-0.0093	823 - 006	8.5290	8.4874	8.5023	-0.8	8.5053	-0.4	8.4716	0.3	108.5
Germany	(DM)	2.4848	-0.0006	837 - 860	2.4962	2.4814	2.4856	-0.4	2.4856	-0.1	2.4721	0.5	124.0
Greece	(Dr)	367.893	-1.999	052 - 733	369.975	365.132	-	-	-	-	-	-	77.6
Ireland	(I£)	1.0201	-0.0019	191 - 210	1.0248	1.0177	1.0204	-0.4	1.0211	-0.4	1.0223	-0.2	104.4
Italy	(L)	2408.44	+3.56	721 - 967	2412.60	2401.27	2414.14	-2.8	2423.84	-2.6	2454.49	-1.9	77.8
Luxembourg	(LFr)	51.1385	-0.0416	047 - 723	51.3070	51.0800	51.1335	0.1	51.1335	0.0	50.9635	0.5	115.4
Netherlands	(Fl)	2.7877	-0.0002	863 - 891	2.7980	2.7841	2.7873	0.2	2.787	0.1	2.7841	0.5	119.6
Norway	(NKr)	10.7545	-0.0101	505 - 585	10.8075	10.7188	10.7489	0.6	10.7814	-0.3	10.7526	0.0	95.6
Portugal	(Es)	257.298	+0.229	163 - 433	258.753	257.146	258.273	-4.5	260.218	-4.5	-	-	-
Spain	(Pta)	204.890	+0.113	582 - 798	205.432	204.454	205.2	-3.0	206.03	-2.6	209.81	-2.0	85.1
Sweden	(SKr)	11.7338	+0.0623	254 - 422	11.7622	11.6298	11.7553	-2.2	11.7858	-1.8	11.8748	-1.2	76.0
Switzerland	(SFr)	2.1186	-0.0053	177 - 195	2.1318	2.1175	2.117	0.6	2.1128	1.1	2.0838	1.6	117.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.0
Ecu	-	1.2903	-0.0002	894 - 911	1.2934	1.2890	1.2915	-1.1	1.2924	-0.6	1.2907	0.0	-
SDR†	-	0.940673	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5081	+0.002	076 - 085	1.5085	1.5016	-	-	-	-	-	-	-
Brazil	(Cr)	2650.06	+8.17	943 - 068	2651.00	2596.00	-	-	-	-	-	-	-
Canada	(C$)	2.0877	+0.0072	868 - 885	2.0885	2.0729	2.0884	-1.0	2.0926	-0.9	2.1079	-1.0	88.8
Mexico	(New Peso)	4.9813	+0.0096	726 - 900	4.9900	4.9627	-	-	-	-	-	-	-
USA	($)	1.5109	+0.0025	105 - 112	1.5120	1.5035	1.51	0.7	1.5087	0.6	1.5067	0.3	65.2
Pacific/Middle East/Africa													
Australia	(A$)	2.0580	+0.0078	568 - 591	2.0595	2.0487	2.0573	0.4	2.0557	0.4	2.0547	0.2	-
Hong Kong	(HK$)	11.6721	+0.0197	686 - 755	11.6758	11.6216	11.664	0.8	11.6601	0.4	11.6871	-0.1	-
India	(Rs)	47.3854	+0.0789	806 - 101	47.4110	47.1940	-	-	-	-	-	-	-
Japan	(Y)	157.816	+0.271	742 - 890	158.430	157.350	157.401	3.2	156.631	3.0	152.746	3.2	164.2
Malaysia	(M$)	3.9207	+0.0026	190 - 223	3.9225	3.9074	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5671	+0.0026	650 - 692	2.5695	2.5582	2.5684	0.3	2.5699	-0.4	2.5765	-0.4	-
Philippines	(Peso)	40.6441	+0.0654	060 - 802	41.1830	40.6783	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6660	+0.0092	643 - 675	5.6679	5.6416	-	-	-	-	-	-	-
Singapore	(S$)	2.3207	+0.0023	194 - 220	2.3220	2.3127	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.4441	+0.0102	405 - 476	5.5485	5.3151	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.3730	+0.012	561 - 898	7.4221	7.3425	-	-	-	-	-	-	-
South Korea	(Won)	1218.43	+2.43	807 - 878	1218.92	1213.37	-	-	-	-	-	-	-
Taiwan	(T$)	40.9568	+0.0598	346 - 789	41.0000	40.8300	-	-	-	-	-	-	-
Thailand	(Bt)	38.0659	+0.0643	495 - 822	38.0930	37.9230	-	-	-	-	-	-	-

†SDR rate for May 24. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 25		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.5675	-0.02	650 - 700	11.6625	11.5600	11.575	-0.8	11.5765	-0.3	11.4903	0.7	103.4
Belgium	(BFr)	33.8475	-0.0625	300 - 650	34.0830	33.8300	33.8725	-0.9	33.8975	-0.6	33.7875	0.2	104.7
Denmark	(DKr)	6.4375	-0.0169	350 - 400	6.4850	6.4350	6.447	-1.8	6.46	-1.4	6.4655	-0.4	104.0
Finland	(FM)	5.4114	+0.0058	065 - 163	5.4383	5.4059	5.4139	-0.6	5.4159	-0.3	5.4269	-0.3	78.3
France	(FFr)	5.6237	-0.0153	222 - 252	5.6660	5.6210	5.6309	-1.5	5.639	-1.1	5.6105	0.2	104.8
Germany	(DM)	1.6447	-0.0031	443 - 450	1.6571	1.6440	1.6462	-1.1	1.6475	-0.7	1.6413	0.2	105.2
Greece	(Dr)	243.500	-1.665	000 - 000	245.700	242.500	244.85	-6.7	245.7	-3.6	248	-1.8	69.7
Ireland	(I£)	1.4812	+0.0062	801 - 822	1.4830	1.4695	1.4799	1.1	1.4776	1.0	1.4742	0.5	-
Italy	(L)	1594.10	+3.75	365 - 454	1598.25	1593.56	1598.55	-3.3	1608.6	-3.1	1627.60	-2.1	78.9
Luxembourg	(LFr)	33.8475	-0.0625	300 - 650	34.0830	33.8300	33.8725	-0.9	33.8975	-0.6	33.7875	0.2	104.7
Netherlands	(Fl)	1.8451	-0.0032	446 - 456	1.8585	1.8443	1.8484	-0.8	1.8471	-0.4	1.8347	0.6	104.3
Norway	(NKr)	7.1182	-0.0182	172 - 192	7.1796	7.1160	7.1212	-0.5	7.1227	-0.3	7.0962	0.3	95.6
Portugal	(Es)	170.200	-0.125	250 - 350	171.900	170.250	171.265	-6.8	172.885	-6.1	177.25	-4.1	92.5
Spain	(Pta)	135.600	-0.145	440 - 520	136.400	135.400	135.975	-3.5	136.455	-2.5	138.555	-2.2	80.4
Sweden	(SKr)	7.7664	+0.042	626 - 701	7.7975	7.7242	7.7849	-2.9	7.8109	-2.3	7.8714	-1.4	81.9
Switzerland	(SFr)	1.4023	-0.0058	020 - 025	1.4165	1.4020	1.4025	-0.1	1.4007	0.5	1.3848	1.3	103.8
UK	(£)	1.5109	+0.0025	105 - 112	1.5120	1.5035	1.51	0.7	1.5087	0.6	1.5067	0.3	85.5
Ecu	-	1.1710	+0.0021	705 - 715	1.1715	1.1639	1.1698	1.5	1.1679	1.1	1.1727	-0.1	-
SDR†	-	1.41545	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9982	-0.0003	981 - 982	0.9983	0.9980	-	-	-	-	-	-	-
Brazil	(Cr)	1754.02	+29.09	401 - 402	1754.05	1754.01	-	-	-	-	-	-	-
Canada	(C$)	1.3818	+0.0025	815 - 820	1.3832	1.3770	1.3839	-1.8	1.387	-1.5	1.3991	-1.3	83.4
Mexico	(New Peso)	3.2970	+0.001	920 - 020	3.2990	3.2920	3.298	-0.4	3.2998	-0.3	3.3072	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	100.0
Pacific/Middle East/Africa													
Australia	(A$)	1.3622	+0.003	617 - 626	1.3661	1.3600	1.3675	-4.8	1.3684	-1.2	1.3647	-0.2	89.5
Hong Kong	(HK$)	7.7255	+0.0005	250 - 260	7.7265	7.7245	7.725	0.1	7.7275	-0.1	7.7417	-0.2	-
India	(Rs)	31.3700	-	675 - 725	31.3725	31.3675	31.45	-3.1	31.585	-2.8	-	-	-
Japan	(Y)	104.455	+0.01	430 - 480	104.830	104.400	104.25	2.4	103.82	2.4	101.395	2.9	145.3
Malaysia	(M$)	2.5950	-0.0025	945 - 955	2.5980	2.5940	2.5875	3.5	2.584	1.7	2.615	-0.8	-
New Zealand	(NZ$)	1.6991	-0.001	981 - 001	1.7015	1.6980	1.7008	-1.3	1.7056	-1.5	1.7272	-1.7	-
Philippines	(Peso)	27.1000	-	500 - 500	27.2500	26.9000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7502	-	501 - 503	3.7503	3.7500	3.7507	-0.2	3.7526	-0.3	3.7665	-0.4	-
Singapore	(S$)	1.5360	-0.001	355 - 365	1.5380	1.5356	1.5353	0.6	1.535	0.3	1.537	-0.1	-
S Africa (Com.)	(R)	3.6036	+0.0007	680 - 710	3.6630	3.6630	3.685	-5.1	3.7153	-4.8	3.79	-3.3	-
S Africa (Fin.)	(R)	4.8800	-	700 - 900	4.9300	4.8600	4.9137	-8.3	4.9725	-7.6	-	-	-
South Korea	(Won)	806.450	+0.3	400 - 500	806.800	806.200	809.45	-4.5	812.95	-3.2	831.45	-3.1	-
Taiwan	(T$)	27.1150	+0.15	000 - 300	27.1500	27.0100	27.135	-0.9	27.175	-0.9	-	-	-
Thailand	(Bt)	25.1950	+0.015	900 - 000	25.2000	25.1900	25.2875	-3.5	25.395	-3.2	25.875	-2.7	-

†SDR rate for May 24. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 24. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 25		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.02	16.62	4.859	1.995	4709	5.452	21.02	503.1	400.3	22.94	4.144	1.955	4.083	2.955	308.6	2.522
Denmark	(DKr)	52.56	10	8.739	2.555	1.049	2476	2.867	11.05	264.5	210.5	12.06	2.179	1.028	2.147	1.554	162.2	1.326
France	(FFr)	60.16	11.44	10	2.924	1.200	2833	3.280	12.65	302.7	240.8	13.80	2.493	1.176	2.456	1.778	185.6	1.518
Germany	(DM)	20.56	3.914	3.421	1	0.410	969.0	1.122	4.326	103.5	82.37	4.720	0.853	0.402	0.840	0.608	63.50	0.519
Ireland	(I£)	50.14	9.535	8.333	2.436	1	2361	2.733	10.54	252.3	200.7	11.50	2.077	0.980	2.047	1.481	154.7	1.265
Italy	(L)	2.124	0.404	0.353	0.103	0.042	100.	0.116	0.446	10.69	8.501	0.487	0.088	0.042	0.087	0.063	6.554	0.054
Netherlands	(Fl)	18.34	3.489	3.049	0.891	0.366	863.7	1	3.856	92.29	73.42	4.207	0.760	0.359	0.749	0.542	56.60	0.463
Norway	(NKr)	47.57	9.047	7.907	2.312	0.949	2240	2.593	10	239.3	190.4	10.91	1.971	0.930	1.942	1.406	146.8	1.200
Portugal	(Es)	19.88	3.780	3.304	0.966	0.396	935.9	1.084	4.178	100.	79.56	4.559	0.824	0.389	0.813	0.588	61.37	0.501
Spain	(Pta)	24.98	4.751	4.152	1.214	0.498	1176	1.362	5.252	125.7	100.	5.730	1.035	0.489	1.020	0.738	77.09	0.630
Sweden	(SKr)	43.60	8.292	7.246	2.118	0.870	2053	2.377	9.165	219.4	174.5	10	1.806	0.853	1.780	1.288	134.5	1.100
Switzerland	(SFr)	24.13	4.590	4.011	1.173	0.481	1136	1.316	5.073	121.4	96.60	5.536	1	0.472	0.985	0.713	74.47	0.609
UK	(£)	51.14	9.726	8.500	2.485	1.020	2408	2.788	10.75	257.3	204.7	11.73	2.119	1	2.088	1.511	157.8	1.290
Canada	(C$)	24.49	4.658	4.071	1.190	0.489	1153	1.335	5.148	123.2	98.04	5.618	1.015	0.479	1	0.724	75.57	0.618
US	($)	33.85	6.437	5.626	1.645	0.675	1594	1.845	7.114	170.3	135.5	7.763	1.402	0.662	1.381	1	104.4	0.854
Japan	(Y)	324.1	61.63	53.87	15.75	6.464	15260	17.67	68.12	1631	1297	74.33	13.43	6.337	13.23	9.575	1000.	8.175
Ecu		39.64	7.540	6.589	1.926	0.791	1867	2.161	8.333	199.5	158.7	9.093	1.643	0.775	1.619	1.171	122.3	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6040	0.6065	+0.0026	0.6066	0.6033	33,085	122,067
Sep	0.6035	0.6058	+0.0027	0.6058	0.6035	423	10,310
Dec	0.6053	0.6060	+0.0019	0.6060	0.6053	17	294

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9570	0.9577	+0.0014	0.9579	0.9551	37,228	62,775
Sep	0.9620	0.9642	+0.0011	0.9642	0.9620	837	6,274
Dec	-	0.9703	-	-	-	148	957

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7069	0.7113	+0.0044	0.7114	0.7067	15,049	41,242
Sep	0.7091	0.7120	+0.0040	0.7120	0.7089	257	2,696
Dec	-	0.7150	-	0.7150	-	5	339

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5054	1.5072	+0.0024	1.5076	1.5048	6,654	43,889
Sep	1.5020	1.5064	+0.0024	1.5060	1.5020	133	2,544
Dec	1.5070	1.5068	-	1.5070	1.5068	12	59

EMS EUROPEAN CURRENCY UNIT RATES

May 25	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.808628	0.790779	-0.001777	-2.21	5.95	15
Netherlands	2.19672	2.16558	+0.00145	-1.42	5.10	4
Belgium	40.2123	39.7295	+0.0257	-1.20	4.87	3
Germany	1.94964	1.93085	+0.00157	-0.96	4.62	-
France	6.53883	6.60042	+0.00024	0.97	2.62	-5
Denmark	7.43679	7.55783	+0.00554	1.62	1.96	-11
Spain	154.250	158.790	-0.13	2.94	0.65	-21
Portugal	192.854	199.824	+0.445	3.61	0.00	-24
NON ERM MEMBERS						
Greece	264.513	285.478	-0.637	7.93	-4.00	-
Italy	1793.19	1863.88	+1.58	3.93	-0.50	-
UK	0.786749	0.775034	-0.00283	-1.49	5.18	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	Calls Jun	Calls Jul	Calls Aug	Puts Jun	Puts Jul	Puts Aug
1.425	8.05	7.98	8.10	-	0.02	0.22
1.450	5.81	5.71	6.01	-	0.16	0.55
1.475	3.18	3.64	4.14	0.03	0.59	1.15
1.500	1.21	2.04	2.61	0.49	1.42	2.10
1.525	0.21	0.96	1.56	1.99	2.77	3.43
1.550	-	0.37	0.84	4.21	4.67	5.18

Previous day's vol., Calls 3,268 Puts 6,590. Prev. day's open int., Calls 499,043 Puts 492,899

WORLD INTEREST RATES

MONEY RATES

May 25	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	5⅛	5¾	5¾	5½	5¾	7.40	4.50	-
week ago	-	5¾	5¼	5⅛	5⅛	7.40	4.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.40	-	5.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	5.40	-	5.75
Germany	5.30	5.25	5.08	5.13	5.18	6.00	4.50	5.20
week ago	5.35	5.25	5.03	4.98	4.96	6.00	4.50	5.23
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	7.00	7.55
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	7.00	7.66
Netherlands	5.15	5.19	5.20	5.23	5.26	-	5.25	-
week ago	5.13	5.19	5.05	5.01	4.99	-	5.25	-
Switzerland	4¼	4⅜	4¼	4⅜	4¼	6.625	3.50	-
week ago	4¼	4⅜	4⅜	4¼	4½	6.625	3.50	-
US	4⅜	4¼	4⅜	4⅞	-	-	3.50	-
week ago	4⅜	4¼	4⅜	5⅛	-	-	3.50	-
Japan	2	2⅛	2⅛	2⅛	2⅝	-	1.75	-
week ago	2	2⅛	2⅛	2⅛	2⅝	-	1.75	-

■ **$ LIBOR FT London Interbank Fixing** — [illegible]

US Dollar CDs, SDR Linked Ds — [illegible]

ECU Linked Ds mid rates: 1 mth: 6⅛; 3 mths: 6¼; 6 mths: 6⅜; 1 year: 6⅝. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 25	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.41	94.42	-	94.44	94.39	14,164	59,001
Sep	94.50	94.49	-0.01	94.54	94.47	28,648	47,781
Dec	94.40	94.39	-0.01	94.44	94.37	16,035	37,497
Mar	94.27	94.28	-0.02	94.33	94.23	7,497	37,738

■ **THREE MONTH EURODOLLAR** (LIFFE) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.24	95.23	-	95.25	95.24	21	5803
Sep	94.99	94.98	-0.03	94.98	94.98	14	3066
Dec	94.08	94.03	-0.05	94.09	94.03	177	1509
Mar	93.85	93.78	-0.10	93.85	93.83	107	1049

■ **THREE MONTH EUROMARK FUTURES** (LIFFE) DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.83	94.87	+0.03	94.88	94.83	25192	162655
Sep	94.92	94.93	-0.02	94.99	94.90	52238	183912
Dec	94.79	94.77	-	94.86	94.75	56331	237206
Mar	94.65	94.63	-0.01	94.72	94.60	34495	211896

■ **THREE MONTH EUROLIRA INT. RATE FUTURES** (LIFFE) L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.30	92.18	-0.08	92.30	92.15	3588	30788
Sep	92.35	92.28	-0.07	92.37	92.19	8982	46761
Dec	92.20	92.06	-0.08	92.20	92.03	5162	47807
Mar	91.99	91.89	-0.08	91.99	91.85	695	12540

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.87	95.79	-0.07	95.88	95.78	4277	23333
Sep	95.81	95.76	-0.13	95.82	95.73	9622	15030
Dec	95.60	95.57	-0.13	95.64	95.55	1628	6969
Mar	95.67	95.56	-0.09	95.67	95.52	1030	4523

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.05	93.99	-0.04	94.10	93.99	1364	6817
Sep	94.25	94.19	-0.04	94.32	94.20	793	12054
Dec	94.10	94.00	-0.05	94.18	94.09	475	7824
Mar	94.00	93.86	-0.05	93.96	93.85	329	3237

* LIFFE futures traded on APT

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.24	95.23	-0.01	95.24	95.21	41,951	386,400
Sep	94.82	94.82	-0.02	94.86	94.80	94,122	410,092
Dec	94.08	94.03	-0.05	94.09	94.03	161,433	402,481

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.61	95.64	+0.01	95.64	95.61	4,071	17,158
Sep	95.09	95.07	-0.01	95.06	95.06	1,626	15,346
Dec	94.56	94.59	-0.03	94.58	94.58	182	1,741

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
9475	0.13	0.27	0.27	0.01	0.09	0.25
9500	0.02	0.14	0.18	0.15	0.21	0.39
9525	0	0.05	0.10	0.38	0.37	0.57

Est. vol. total, Calls 21641 Puts 5806. Previous day's open int., Calls 349335 Puts 185370

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
9575	0.08	0.18	0.26	0.02	0.14	0.34
9600	0.01	0.09	0.16	0.20	0.30	0.50
9625	0	0.04	0.08	0.46	0.48	0.66

Est. vol. total, Calls 6 Puts 104. Previous day's open int., Calls 480 Puts 3504

UK INTEREST RATES

LONDON MONEY RATES

May 25	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from February 8, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3½	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 4.7432pc. ECGD fixed rate Stg. Export Finance. Make up day April 29, 1994. Agreed rate for period May 26, 1994 to Jun 25, 1994, Scheme II & III 6.89pc. Reference rate for period Apr 1, 1994 to Apr 29, 1994, Schemes IV & V 5.269pc. Finance House Base Rate 6½pc from May 1, 1994

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.70	94.69	-	94.71	94.69	5245	68262
Sep	94.38	94.31	-0.06	94.39	94.30	14465	91448
Dec	93.97	93.80	-0.15	93.98	93.80	33436	123140
Mar	93.43	93.25	-0.16	93.43	93.26	8877	53754

Traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
9450	0.19	0.11	0.09	0	0.30	0.79
9475	0.03	0.03	0.05	0.06	0.49	1.00
9500	0	0.02	0.02	0.31	0.71	1.22

Est. vol. total, Calls 8132 Puts 3300. Previous day's open int., Calls 174630 Puts 139221

BASE LENDING RATES

Adam & Company 5.25 · Allied Trust Bank 5.25 · AIB Bank 5.25 · •Henry Ansbacher 5.25 · Bank of Baroda 5.25 · Banco Bilbao Vizcaya 5.25 · Bank of Cyprus 5.25 · Bank of Ireland 5.25 · Bank of India 5.25 · Bank of Scotland 5.25 · Barclays Bank 5.25 · Brit Bk of Mid East 5.25 · •Brown Shipley & Co Ltd 5.25 · CL Bank Nederland 5.25 · Citibank NA 5.25 · Clydesdale Bank 5.25 · The Co-operative Bank 5.25 · Coutts & Co 5.25 · Credit Lyonnais 5.25 · Cyprus Popular Bank 5.25 · Duncan Lawrie 5.25 · Exeter Bank Limited 6.25 · Financial & Gen Bank 6 · •Robert Fleming & Co 5.25 · Girobank 5.25 · •Guinness Mahon 5.25 · Habib Bank AG Zurich 5.25 · •Hambros Bank 5.25 · Heritable & Gen Inv Bk 5.25 · •Hill Samuel 5.25 · C. Hoare & Co 5.25 · Hongkong & Shanghai 5.25 · Julian Hodge Bank 5.25 · •Leopold Joseph & Sons 5.25 · Lloyds Bank 5.25 · Meghraj Bank Ltd 5.25 · Midland Bank 5.25 · •Mount Banking 6 · NatWestminster 5.25 · •Rea Brothers 5.25 · •Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution. 8 · Royal Bk of Scotland 5.25 · •Smith & Williamson Secs. 5.25 · TSB 5.25 · •United Bk of Kuwait 5.25 · Unity Trust Bank Plc 5.25 · Western Trust 6.25 · Whiteaway Laidlaw 5.25 · Yorkshire Bank 5.25

• Members of British Merchant Banking & Securities Houses Association · * In administration

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 25 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (May 25 / Frs.)

[illegible]

DENMARK (May 25 / Kr)

[illegible]

FINLAND (May 25 / Mka)

[illegible]

FRANCE (May 25 / Frs.)

[illegible]

Fimall	153	+.90	182	135	6.0	—	—
FoncLy	900	-6	999	800	1.9	—	—
FramSel	4,895	+90	6,020	4,808	1.0	—	—
GTMEm	446	+4	578	436	2.5	—	—
GalLaf	2,360	-20	2,754	2,092	0.7	—	—
Gaumnt	770	-10	1,020	785	1.0	—	—
Gphys	615	-5	645	556	2.0	—	—
Havas	458	-8	483.90	420	2.8	—	—
Imetal	551	-20	680	542	2.5	—	—
ImmFr	528	+28	716	498.90	—	—	—
Immbnq	855	-5	1,078	851	7.0	—	—
InPhm	85.10	+.90	118	79	3.6	—	—
Intbal	505	+3	570	490	8.6	—	—
Inrtc	693	+1	709	500	5.1	—	—
LVMH	875	-19	954	727	3.0	—	—
LafCop	425	-8.40	491.80	422	3.2	—	—

NETHERLANDS (May 25 / Fls.)

[illegible]

GERMANY (May 25 / Dm.)

[illegible]

NORWAY (May 25 / Kroner)

[illegible]

ITALY (May 25 / Lire)

[illegible]

Olivet	2,750	-110	3,140	1,815	—	—	—
Pirell	5,320	-130	6,100	3,810	—	—	—
PkSpa	2,710	-140	3,385	1,970	—	—	—
RAS	29,200	-1,200	34,850	23,800	1.0	—	—
Rinasc	10,790	-70	12,100	8,288	—	—	—
SAISPa	8,980	+90	10,600	7,900	2.2	—	—
SIP	4,300	-70	5,195	3,383	2.0	—	—
SME	988	-4	1,088	490	—	—	—
STET	5,405	-175	6,350	4,085	1.9	—	—
SaiSaA	5,880	+85	7,200	4,146	—	—	—
Saipem	4,085	-75	4,510	2,875	—	—	—
SPaolo	9,950	-540	11,700	9,910	3.8	—	—
Snia	11,950	-450	13,900	9,201	4.4	—	—
SniaBP	2,390	-105	2,730	1,392	—	—	—
ToroAs	29,350	-2,300	36,300	25,700	—	—	—
ToroFr	21,100	-500	24,082	18,487	—	—	—
Unicem	12,850	-150	16,700	10,380	—	—	—

SPAIN (May 25 / Pts.)

[illegible]

SWEDEN (May 25 / Kronor)

[illegible]

SWITZERLAND (May 25 / Frs.)

[illegible]

ElekBr	384	-7	422	383	—	—	—
Elvia	1,700	+20	2,000	1,675	3.5	—	—
FischB	1,450	-25	1,800	1,060	2.8	—	—
FrboBr	2,840	+80	2,932	2,335	2.5	—	—
HldbkB	940	-5	1,000	875	1.6	—	—
HlvaRg	430xd	+35	450	375	2.8	—	—
JelmBr	825	-20	971	782	1.7	—	—
JelmRg	158	—	172	143.50	1.8	—	—
LanBRg	900	-23	991	875	1.3	—	—
MtCoIB	1,680	-20	1,800	1,400	2.4	—	—
NestRg	1,116	-2	1,497	1,085	2.2	—	—
OerBRg	147	—	175	130.50	—	—	—
PgesaBr	1,650	—	1,740	1,430	4.1	—	—
PlrVaBr	4,860	-140	5,640	4,470	—	—	—
PrtlB	200	-5	283	190	6.0	—	—
RichBr	1,195	+5	1,540	1,170	—	—	—

PACIFIC

JAPAN (May 25 / Yen)

[illegible]

KeulB	2,850	-50	2,970	2,590	—	—	—
KeulFn	508	-5	515	425	—	—	—
Kao	1,210	-40	1,310	1,150	—	—	—
KawHvy	431	+1	442	338	—	—	—
KawKsn	387	+7	388	271	—	—	—
KawStl	400	+1	403	303	—	—	—
KEIeEx	677	-3	720	601	—	—	—
KeioT	581	-9	615	515	—	—	—
Kikkmn	882	-28	970	825	0.6	—	—
Kinden	1,770	+10	1,898	1,583	0.5	—	—
KinkiNi	820	+1	877	804	—	—	—
Kirin	1,250	+20	1,280	1,130	—	—	—
KobeSt	295	-5	304	250	—	—	—
KoitoM	870	—	950	749	—	—	—
KokEle	2,040	+40	2,150	1,700	—	—	—
Kokuyo	2,340	+10	2,480	2,150	—	—	—

AUSTRALIA (May 25 / Aust$)

[illegible]

HONG KONG (May 25 / H.K.$)

[illegible]

MALAYSIA (May 24 / MYR)

[illegible]

SINGAPORE (May 24 / S$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (May 25 / Cdn $)

4 pm close

[illegible]

MONTREAL (May 25 / Cdn $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (May 25 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES – [illegible]

FT FREE ANNUAL REPORTS SERVICE [illegible]

■ TOKYO – MOST ACTIVE STOCKS: Wednesday, May 25, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Mitsui Eng	16.0m	373	+14	Matsushita	5.9m	1810	+80
M'bishi Hvy	10.9m	723	+8	Toshiba	5.7m	803	+7
Hitachi	10.2m	1030	+20	Nippon Steel	5.1m	369	+1
Mitsui Osk	9.6m	428	+24	Sanyo Elec	5.1m	533	+5
Kawasaki Steel	7.1m	400	+1	Ishi-Har Hvy Ind	4.9m	476	+8

INDICES

	May 25	May 24	May 23	1994 High		1994 Low	
Argentina							
General (29/12/77)	(c)	21119.2	20908.89	25478.49	16/2	17758.96	20/4
Australia							
All Ordinaries(1/1/80)	2105.9	2132.4	2121.0	2340.60	3/2	1999.10	5/5
All Mining(1/1/80)	1049.7	1067.3	1047.3	1138.10	3/2	994.80	5/5
Austria							
Credit Aktien(30/12/84)	414.86	417.31	(c)	480.86	2/2	413.44	9/5
Traded Index(2/1/91)	1060.73	1078.89	(c)	1222.25	1/2	1053.88	9/5
Belgium							
BEL20 (1/1/91)	1509.25	1532.57	(c)	1542.85	9/2	1482.78	30/3
Brazil							
Bovespa (29/12/83)	(c)	21276.0	20863.0	21276.00	24/5	3800.98	3/1
Canada							
Metals Mnls♦(1975)	(u)	3747.50	(c)	3878.58	18/3	3299.66	20/4
Composite♦ (1975)	(u)	4286.98	(c)	4580.90	23/3	4105.80	20/4
PortfolioSS (4/1/83)	(u)	1997.47	(c)	2182.38	1/2	1903.37	19/4
Chile							
IPGA Gen (31/12/80)	(u)	4346.3	4318.6	4867.89	4/2	3801.20	4/4
Denmark							
CopenhagenSE(3/1/83)	365.14	369.23	(c)	415.79	2/2	365.14	25/5
Finland							
HEX General(28/12/90)	1829.1	1867.0	1879.5	1892.00	4/2	1601.10	3/1
France							
SBF 250 (31/12/90)	1396.85	1417.28	(c)	1585.20	2/2	1396.85	25/5
CAC 40(31/12/87)	2085.41	2133.32	(c)	2355.88	2/2	2081.94	31/3
Germany							
FAZ Aktien(31/12/58)	824.00	835.16	(c)	860.27	18/5	776.38	2/3
Commerzbank(1/12/53)	2344.10	2378.5	(c)	2465.50	2/5	2221.20	2/3
DAX (30/12/87)‡	2158.77	2198.72	(c)	2271.11	16/5	2020.33	2/3
Greece							
Athens SE(31/12/80)	806.67	854.25	887.08	1104.58	18/1	806.67	25/5
Hong Kong							
Hang Seng(31/7/64)	9521.37	9490.11	9569.78	12201.09	4/1	8369.44	4/5
India							
BSE Sens.(1979)	(c)	3704.3	3737.2	4367.90	28/2	3454.69	5/1
Indonesia							
Jakarta Comp.(10/8/82)	(c)	501.97	496.36	612.89	5/1	464.32	28/4
Ireland							
ISEQ Overall(4/1/88)	1787.54	1813.96	1821.82	2082.16	20/1	1787.54	25/5
Italy							
Banca Comm Ital (1972)	759.79	765.24	757.97	817.17	10/5	598.85	10/1
MIB General (4/1/94)	1227.0	1219.0	1224.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	20663.63	20622.12	20568.71	20677.77	18/3	17369.74	4/1
Nikkei 300 (1/10/82)	303.27	302.57	302.50	304.25	1/3	258.22	4/1
Topix (4/1/68)	1659.18	1655.82	1654.21	1668.18	25/3	1445.97	4/1
2nd Section (4/1/68)	2314.40	2314.94	2317.81	2339.86	16/5	1873.32	4/1
Malaysia							
KLSE Comp.(4/4/86)	(c)	987.26	989.10	1314.46	5/1	828.33	4/4
Mexico							
IPC (Nov 1978)	(c)	2488.52	2431.43	2881.17	8/2	1957.33	20/4
Netherland							
CBS TtRtnGen(End 83)	429.0	433.7	(c)	454.90	31/1	417.40	5/4
CBS All Shr (End 83)	272.8	275.7	(c)	294.80	31/1	268.60	31/3
New Zealand							
Cap. 40 (1/7/86)	2155.18	2155.22	2138.24	2430.64	3/2	2012.82	5/5
Norway							
Oslo SE(Ind)(2/1/83)	1122.91	1128.73	(c)	1211.10	28/2	1072.87	3/1
Philippines							
Manila Comp (2/1/85)	2879.21	2901.36	2922.17	3388.37	4/1	2587.33	9/3
Portugal							
BTA (1977)	2891.3	2918.4	2918.8	3228.60	18/2	2819.90	3/1
Singapore							
SES All-S'pore(2/4/75)	(c)	571.80	576.30	641.81	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	1951.0♥	1995.0	1990.0	2381.69	4/1	1749.00	14/2
JSE Indl. (28/9/78)	6855.0♥	6833.0	6840.0	6719.60	13/5	5448.00	19/1
South Korea							
KoreaCmpEx(4/1/80)**	943.92	945.89	945.50	974.26	2/2	855.37	2/4
Spain							
Madrid SE (30/12/85)	330.45	336.52	337.91	368.31	31/1	309.73	20/4
Sweden							
AffarsvardsGen (1/2/37)	1505.80	1519.5	(c)	1662.90	31/1	1403.69	31/3
Switzerland							
Swiss Bk Ind (31/12/58)	1267.85	1274.74	(c)	1423.34	31/1	1229.76	9/5
SBC General (1/4/87)	950.02	955.08	(c)	1089.28	31/1	917.53	9/5
Taiwan							
WeightedPr.(30/6/66)**	5775.18	5769.12	5817.88	6464.52	6/1	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1348.80	(c)	1338.59	1753.73	4/1	1196.89	4/4
Turkey							
Istanbul Cmp.(Jan 1986)	16413.4	(c)	(c)	20680.60	13/1	12969.79	24/3
WORLD							
MS Capital Int (1/1/70)$	615.0*	619.0	620.1	641.06	1/2	591.89	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1412.51	1435.77	1448.42	1549.16	31/1	1398.60	2/3
Euro Top-100 (26/6/90)	1224.70	1246.59	1258.78	1311.91	2/2	1202.49	2/3
JCapelDrgns (31/12/88)	(u)	321.65	324.72	386.19	5/1	298.28	21/3
Barings Emerg.(7/1/92)	156.16	155.48	155.82	182.72	14/2	141.95	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	2135.0	2077.0	-58.0	2141.0	2076.0	38,482	20,419
Jun	2117.5	2059.5	-58.0	2122.5	2058.0	7,298	38,471
Jul	2115.5	2057.5	-58.0	2120.5	2060.0	645	1,155

Open interest figures for previous day.

** Sat May 21: Taiwan Weighted Price 5831.18; Korea Comp Ex 948.19. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ DAX after-hours index: May 25 – 2137.56 –50.45

US INDICES

Dow Jones	May 24	May 23	May 20	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3745.17	3742.41	3758.35	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	97.75	97.71	97.84	[illegible]	[illegible]	[illegible]	[illegible]
Transport	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Utilities	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DJ Ind. Day's High [illegible] Low [illegible] (Theoretical) Day's high [illegible] Low [illegible] (Actual)

Standard and Poors							
Composite ‡	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Industrials	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Financial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NYSE Comp.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amex Mkt Val	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NASDAQ Comp	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ RATIOS

	May 13	May 6	Apr 29	Year ago
Dow Jones Ind. Div. Yield	2.76	2.77	2.76	2.97
	May 18	May 11	May 4	Year ago
S & P Ind. Div. yield	2.48	2.54	2.48	2.52
S & P Ind. P/E ratio	24.08	23.82	23.99	26.25

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	456.60	456.95	-2.40	455.45	452.80	68,380	192,062
Sep	458.45	455.40	-1.25	455.45	457.25	5,075	21,478
Dec	458.60	458.40	-1.85	458.80	458.50	82	7,847

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Merck	[illegible]	[illegible]	[illegible]
Philip Morris	[illegible]	[illegible]	[illegible]
Gerber	[illegible]	[illegible]	[illegible]
Telefonos	[illegible]	[illegible]	[illegible]
Med Care	[illegible]	[illegible]	[illegible]
Royal Dutch	[illegible]	[illegible]	[illegible]
Circus Ent	[illegible]	[illegible]	[illegible]
IBM	[illegible]	[illegible]	[illegible]
Chrysler	[illegible]	[illegible]	[illegible]
Wal-Mart	[illegible]	[illegible]	[illegible]

■ TRADING ACTIVITY

● Volume (million)

	May 24	May 23	May 20
New York SE	[illegible]	[illegible]	[illegible]
Amex	[illegible]	[illegible]	[illegible]
NASDAQ	[illegible]	[illegible]	[illegible]
NYSE Issues Traded	[illegible]	[illegible]	[illegible]
Rises	[illegible]	[illegible]	[illegible]
Falls	[illegible]	[illegible]	[illegible]
Unchanged	[illegible]	[illegible]	[illegible]
New Highs	[illegible]	[illegible]	[illegible]
New Lows	[illegible]	[illegible]	[illegible]

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¶ Subject to official recalculation.

4 pm close May 25

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17¾	14⅛	AAR	0.48	3.3	467	27	14⅝	14⅝	14⅝	
16⅞	13¼	A L Labs A	0.18	1.3	32	301	14	13⅛	13⅞	+⅛
66	57⅞	AMP	1.68	2.6	23	597	65¾	65¼	65⅝	-⅛
72¼	52⅛	AMR			28	1644	55¼	54½	54⅞	-⅛
5	3⅝	ARX			14	52	4¼	4⅛	4¼	
56½	38⅝	ASA x	2.00	4.7	28	417	43⅝	42⅞	42⅞	-⅜
30⅝	25⅜	AbbotL	0.76	2.6	17	20715	30½	29⅛	29¾	+½
13¾	11⅜	Abitibi Pr	0.50	4.1	8	5	12⅜	12¼	12¼	-⅛
13¾	11⅛	Acptncala			23	101	12⅝	12½	12½	
31	24½	ACE Ltd	0.44	1.6	4	320	28¼	27¾	28	
12½	10⅛	ACM Gvt In	1.09	10.1		485	10⅞	10¾	10⅞	+⅛
10⅛	7⅞	ACM GvOpp	0.80	9.4		33	8⅝	8½	8½	-⅛
10⅝	8⅜	ACM Gvt Sp	0.96	11.1		268	8⅝	8½	8⅝	
12	9½	ACM Gvt Se	1.08	11.1		332	10	9⅞	9⅞	
11¾	8¾	ACM Man	1.08	11.5		526	9½	9¼	9⅜	+⅛
9¼	8	ACM Managd	0.72	8.6		148	8½	8⅜	8⅜	-¼
15½	8¾	AcmeCle	0.44	4.2	12	51	10¾	10⅜	10½	-⅛
8½	6⅝	Acme Elect			5	43	7¼	7½	7⅝	
28¾	23	Acordia	0.60	2.1	14	8	28⅜	28⅛	28⅜	
9⅜	6¾	Actava	0.36	4.2	2	977	8⅞	8½	8⅝	+⅛
15⅝	11¼	Acuson			116	362	15¾	15⅜	15⅛	-⅛
18⅞	16½	Adams Expr	0.48	2.7	0	356	17½	16⅞	17½	+½
64	48½	Ad Micro x	3.00	5.4		1519	56	55	55⅝	+2⅝
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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4 pm close May 25

NYSE COMPOSITE PRICES

Continued from previous page

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NASDAQ NATIONAL MARKET

4 pm close May 25

[illegible]

AMEX COMPOSITE PRICES

4 pm close May 25

[illegible]

AMERICA

Orders data reinforce sour mood in equities

Wall Street

Blue chip stocks followed bonds to moderately lower levels yesterday morning, with the sour mood reinforced by data suggesting that the economy was losing steam, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 15.04 lower at 3,736.58, but the more broadly based Standard & Poor's 500 was down a scant 0.95 at 453.86 in moderate NYSE trading volume of 143m shares.

In the secondary markets, the American SE composite was 1.39 easier at 437.79, and the Nasdaq composite shed 2.49 to 728.98.

Early in the session, equity investors were forced to contend with an unlikely combination of negatives – weak economic news, in conjunction with further declines in the US Treasury market.

Though indications of an economic slowdown were likely to worry shareholders betting on strong growth in corporate earnings, such data in the past often triggered an upturn by bonds because of the improved outlook on inflation, which threatened the value of fixed-rate investments. Higher bond prices, and a concurrent decline in yields, were usually a plus for equities.

Yesterday, however, Treasury prices receded in spite of the Commerce Department's announcement that orders of durable goods last month had grown by a meagre 0.1 per cent, against expectations of a solid 1.0 per cent gain. The bond market shrugged off the development amid concern over an afternoon note auction. By midday, the benchmark 30-year security was showing moderate losses.

The double blow hit stocks across the board, with the blue chips showing a 21-point decline by mid-morning. Later the broader market improved as bonds recovered some lost ground. News of a solid 1.2 per cent increase in sales of existing homes last month brought no reaction, as the gain was in line with expectations.

The session's biggest loser was Gtech Holdings, which plummeted $12, or 34 per cent, to $23⅞. The company, which designs and operates on-line lotteries and games, warned that net income in fiscal 1995 would not show improvement on fiscal 1994 because of stagnant sales and lower margins. International Game Technology, a competitor, shed $⅞ to $21⅞ in brisk trading.

Among the Dow industrials, trading in Philip Morris was halted during the morning. Its board was meeting amid stepped-up pressure from institutional investors to consider splitting its tobacco and food operations into separate entities. The stock fell 2.7 per cent to $53⅝ in the previous session.

Technology issues again generated activity but the results were mixed.

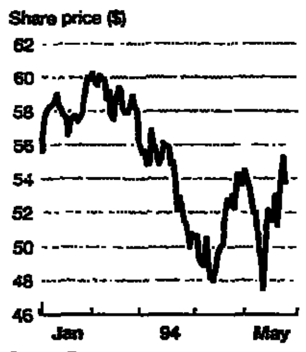
Hewlett-Packard dropped $3⅛ to $79⅞ after the company held a briefing for analysts in New York. The computer maker suggested during the meeting that its revenue growth may begin to slow from the current rate of 20 per cent, although it stressed that sales would remain strong.

Elsewhere, Compaq Computer jumped $2⅞ to $119¼ on news that it had displaced IBM and Apple as the world's leading supplier of personal computers. IBM was $¼ higher at $63⅞ but Apple was unchanged at $30⅞.

Storage Technology was marked up for the second consecutive session. The stock gained $1⅛ to $33⅛ a day after revealing a promising start for its Iceberg 2000 storage system.

Philip Morris

Share price ($)



Source: Datastream

Canada

Toronto bonds and equities sank in tandem after the German authorities cancelled a bond auction when bids failed to reach expectations.

In equities, losses in consumer products, conglomerates, and industrial products overwhelmed slight gains in merchandising as the TSE 300 composite index fell 23.41 to 4,283.57 at midday.

The consumer products group dropped 69.29 to 6,626.76, with the heavily-weighted Seagram Co off C$⅜ at C$40⅞.

Brazil

São Paulo saw a rise of 2.8 per cent in quiet trade as investors continued to focus on technical factors while awaiting new developments in Brazil's presidential race.

The Bovespa index was up 602 at 21,880 at 11.45 local time, but brokers said that the market could rally further if Telebras, the most popular stock in Brazil, broke a Cr$2.30 resistance level.

Telebras was up 2.6 per cent at Cr62. On the political front, players were waiting for a decision from the former President, Mr Jose Sarney, on whether he would support the candidacy of the former economy minister, Mr Fernando Henrique Cardoso.

Mexico

Mexico eased in early trade on downward pressure from Wall Street and profit-taking after the gains of the previous six sessions. The IPC index gave up 14.07 to 2,454.45 in moderate volume of 12.6m shares. Among the losers, B shares of Unica, the investment company lost 4.8 per cent.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms May 20 1994	% Change over week	% Change on Dec '93	Local currency terms May 20 1994	% Change over week	% Change on Dec '93
Latin America	(210)	618.87	+9.6	-4.9			
Argentina	(25)	972.55	+8.4	-2.2	536,781.07	+8.4	-2.2
Brazil	(57)	235.46	+17.3	+1.2	534,445,093.1	+27.6	+425.9
Chile	(25)	634.56	+5.6	+15.0	1,077.93	+5.4	+13.1
Colombia[1]	(11)	912.93	-0.5	+41.6	1,362.78	-0.4	+47.0
Mexico	(69)	890.10	+8.8	-11.6	1,267.69	+7.8	-6.1
Peru[2]	(11)	154.57	+4.2	+27.8	206.06	+4.3	+29.6
Venezuela[3]	(12)	554.64	+3.1	-6.3	1,759.80	+6.1	+23.8
Asia	(557)	244.59	+0.7	-16.0			
China[4]	(18)	92.80	+1.2	-37.8	101.56	+1.1	-38.1
South Korea[5]	(156)	132.20	-0.6	+11.9	140.11	-0.6	+11.6
Philippines	(18)	282.22	-1.3	-17.1	364.71	-0.7	-17.9
Taiwan, China[6]	(90)	131.21	-3.3	-3.0	132.02	-2.8	-1.3
India[7]	(76)	124.55	-1.2	+6.9	137.74	-1.2	+6.9
Indonesia[8]	(37)	103.73	+5.5	-16.8	121.85	+5.6	-14.4
Malaysia	(105)	269.16	+0.3	-20.6	257.17	-0.5	-23.7
Pakistan[9]	(15)	354.64	-2.0	-8.6	492.02	-1.0	-6.8
Sri Lanka[10]	(5)	176.30	+2.2	-0.5	189.03	+2.4	-1.0
Thailand	(55)	378.89	+6.3	-20.7	379.87	+6.5	-21.4
Euro/Mid East	(125)	100.89	+2.0	-40.4			
Greece	(25)	225.36	-2.4	-1.0	379.50	-1.9	-1.3
Hungary[11]	(5)	197.23	-3.3	+18.3	243.95	-3.9	+20.8
Jordan	(13)	164.46	-1.0	-0.7	237.50	-0.7	-0.8
Poland[12]	(12)	705.55	+11.5	-13.7	1,004.92	+11.5	-9.0
Portugal	(25)	120.28	+3.0	+5.7	140.66	+1.6	+1.8
Turkey[13]	(40)	74.87	+3.9	-64.8	1,173.60	+3.7	-19.3
Zimbabwe[14]	(5)	290.92	+2.0	+44.0	343.02	+1.3	+60.6
Composite	(892)	309.79	+4.9	-12.9			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

The Bombay stock exchange tomorrow launches a broadly based 200-share index, as a first step towards index-based futures trading to replace the banned carry-forward system, *Reuter reports*. The index is expected eventually to replace the BSE 30-share index which, critics say, is unfairly weighted in favour of a few blue chips. The BSE is also introducing a dollar-based index, to help foreign investors measure their returns on Indian bourses. Mr Asit Mehta of Nucleus Financial Services, who proposed the system, said that index-based futures trading would solve the bourses' problems of illiquidity, inadequate hedging opportunities and a cumbersome settlement mechanism. India's 22 bourses have been seeking a replacement to the badla, or carry-forward trading, since it was banned six months ago on the grounds that it caused excessive speculation. Analysts say that index-based futures, though not the ideal solution, were the only viable alternative.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 24 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 23 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	178.80	0.4	175.76	118.05	153.18	161.63	0.2	3.39	178.12	175.30	117.55	152.39	161.33	189.15	130.19	133.03
Austria (17)	177.96	-1.2	174.92	117.49	152.45	152.27	-1.1	1.07	180.13	177.28	118.87	154.11	153.94	195.41	140.14	140.14
Belgium (39)	175.79	-0.5	172.79	116.06	150.59	147.09	-0.3	3.75	178.64	173.84	116.57	151.12	147.53	176.67	141.92	144.51
Canada (106)	130.72	-0.4	128.49	86.30	111.99	130.56	-0.3	2.59	131.23	129.15	86.60	112.27	131.00	145.31	121.46	129.11
Denmark (33)	251.78	-1.8	247.48	166.23	215.69	221.02	-1.6	1.33	256.48	252.41	169.25	219.42	224.53	275.79	207.58	218.18
Finland (23)	153.84	-1.0	151.22	101.57	131.79	174.59	-0.5	0.84	155.35	152.89	102.52	132.91	175.47	156.72	85.54	100.21
France (98)	174.83	-1.4	171.95	115.49	149.86	164.73	-1.1	2.91	177.32	174.51	117.02	151.70	156.52	185.37	148.60	151.75
Germany (58)	141.84	-2.3	139.42	93.65	121.51	121.51	-2.2	1.70	145.23	142.93	95.84	124.25	124.25	147.07	107.59	108.16
Hong Kong (56)	388.07	-1.0	381.46	256.21	332.46	384.88	-1.0	2.76	391.98	385.77	258.68	335.36	388.76	506.56	271.42	295.17
Ireland (14)	187.62	-1.5	184.42	123.87	160.73	179.10	-0.6	3.39	190.45	187.43	125.68	162.94	180.22	209.33	155.93	157.20
Italy (80)	91.32	0.7	89.77	60.29	78.24	108.47	0.7	1.48	90.73	89.29	59.88	77.62	107.72	97.78	57.88	71.78
Japan (469)	159.04	0.0	156.33	105.00	136.25	105.00	0.0	0.77	159.09	156.56	104.98	136.11	104.98	165.91	124.54	144.65
Malaysia (98)	467.50	-1.7	459.53	308.65	400.50	467.68	-1.5	1.43	475.60	468.07	313.87	406.90	475.00	621.63	312.51	336.77
Mexico (18)	2101.51	0.7	2065.68	1387.44	1800.30	7573.17	0.7	1.03	2086.19	2053.09	1376.72	1784.78	7523.64	2647.08	1431.17	1503.52
Netherland (26)	201.65	-1.1	198.21	133.13	172.76	170.11	-1.0	3.30	203.93	200.70	134.58	174.48	171.67	207.43	164.14	164.14
New Zealand (14)	70.41	0.9	69.21	46.48	60.32	63.56	1.0	3.76	69.77	68.66	46.04	59.69	62.91	77.59	48.57	49.05
Norway (23)	200.80	-1.0	197.38	132.57	172.02	194.50	-0.8	1.70	202.89	199.67	133.89	173.58	196.10	206.42	150.51	156.55
Singapore (44)	346.80	-1.4	340.89	228.96	297.10	245.63	-1.5	1.54	351.74	346.16	232.12	300.93	249.33	378.92	242.46	251.87
South Africa (59)	263.39	-0.3	258.90	173.89	225.64	280.93	-0.5	2.20	264.16	259.97	174.32	225.99	282.33	280.26	175.93	201.01
Spain (42)	149.49	-0.5	146.94	98.69	128.06	153.59	-0.4	3.88	150.21	147.83	99.13	128.51	154.25	165.79	116.33	128.15
Sweden (36)	226.46	-1.5	222.60	149.51	194.01	258.96	-0.7	1.54	229.84	226.19	151.68	196.64	260.76	231.35	163.85	178.99
Switzerland (47)	157.06	-1.4	154.38	103.69	134.55	137.11	-1.4	1.77	159.24	156.71	105.09	136.23	139.05	178.56	122.92	122.92
United Kingdom (205)	190.77	-0.5	187.51	125.95	163.43	187.51	-0.7	3.97	191.79	188.75	126.57	164.09	188.75	214.95	170.32	176.25
USA (519)	185.42	0.4	182.26	122.42	158.84	185.42	0.4	2.89	184.69	181.76	121.88	158.01	184.69	198.04	178.95	183.05
EUROPE (721)	169.46	-1.0	166.57	111.88	145.17	158.29	-0.8	2.93	171.18	168.46	112.96	146.45	159.80	178.58	141.58	143.94
Nordic (115)	214.23	-1.4	210.58	141.44	183.53	213.39	-0.9	1.40	217.39	213.94	143.46	185.98	215.28	220.60	155.82	168.52
Pacific Basin (760)	167.80	-0.1	164.85	110.79	143.76	115.12	-0.1	1.05	168.03	165.37	110.89	143.76	115.24	169.80	134.79	148.60
Euro-Pacific (1471)	168.34	-0.5	165.47	111.14	144.21	132.30	-0.5	1.84	169.19	166.50	111.65	144.74	132.91	170.78	141.98	146.58
North America (625)	182.02	0.4	178.92	120.17	155.93	181.63	0.4	2.87	181.37	178.50	119.69	155.17	180.97	192.73	175.67	179.70
Europe Ex. UK (516)	153.88	-1.3	151.26	101.60	131.81	139.86	-1.1	2.31	155.97	153.50	102.93	133.44	141.47	157.47	122.37	124.05
Pacific Ex. Japan (281)	253.62	-0.7	249.30	167.44	217.27	227.75	-0.7	2.60	255.44	251.39	168.57	218.54	229.45	298.21	182.38	199.66
World Ex. US (1654)	169.42	-0.5	166.53	111.85	145.13	135.60	-0.4	1.85	170.23	167.53	112.34	145.64	136.21	172.51	142.64	147.37
World Ex. UK (1968)	172.05	-0.1	169.12	113.59	147.39	147.64	-0.1	2.03	172.28	169.55	113.69	147.39	147.78	175.59	153.22	156.61
World Ex. So. Af. (2114)	173.18	-0.2	170.23	114.34	148.36	150.30	-0.1	2.22	173.48	170.73	114.48	148.42	150.52	178.56	155.00	158.15
World Ex. Japan (1704)	183.60	-0.2	180.47	121.22	157.29	177.87	-0.2	2.84	184.03	181.12	121.45	157.45	178.26	195.20	165.72	167.50
The World Index (2173)	173.72	-0.2	170.75	114.69	148.82	151.26	-0.1	2.22	174.02	171.28	114.84	148.88	151.51	178.97	155.17	158.34

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Amendments to indices 20/5, 23/5 and 24/5/94 applied to France, related regional indices and The World Index. Latest prices were unavailable for this edition.

EUROPE

Bourses face 'corrosion of confidence'

Including Monday's trading on Seaq International as part of the sequence, bourses registered a fifth consecutive decline yesterday, *writes Our Markets Staff.*

Mr Andrew Bell, director of European strategy at Barclays de Zoete Wedd, called this a "corrosion of confidence", and attributed it to several factors, including:

- optimism over recovery prospects approaching a crest;
- interest rate cuts likely to be on hold in Europe, in the face of inflated German M3 money supply figures;
- uncertainty over US inflation prospects, which could delay any robust recovery in bonds and the US dollar;
- European cyclicals looking tired after their recent strength, and an unwillingness to buy financials because of interest rate uncertainties; and
- the unabated boom in new equity issues.

FRANKFURT, once again, was hit hard. The Dax index fell 39.95, or 1.8 per cent to 2,158.77 during the session, and lost another percentage point in the afternoon, ending at an Ibis-indicated 2,137.56 after weakness on Wall Street and late pressure on the dollar against the D-Mark.

Turnover rose from DM7bn to DM8.2bn. In financials, Allianz took the biggest beating, dropping DM70, or 2.8 per cent, to DM2,439 on the session and DM24 to DM2,415 after hours.

Carmakers and chemicals were savaged among the cyclicals but, as expected, the worst fall of the day was reserved for Metallgesellschaft after its revelations of newly identified risks which it would have to cover in the US.

The shares dropped DM29 to DM231 on the session, and DM11 more to DM220 in the afternoon for an overall fall of 15.4 per cent.

PARIS was infected by German rate cut worries after the Bundesbank cut its repo rate by only 3 basis points. The CAC-40 index fell 48.91, or 2.3 per cent to 2,064.41 in turnover of FFr4.4bn.

Thomson-CSF, which delayed further the publication of its 1993 results, fell FFr5.80 to FFr175.10.

MILAN turned back after an early rally prompted further selling. The Comit index finished 4.55 higher at 759.78, although the real-time Mibtel index registered a 2.6 per cent fall over the day.

FT-SE Actuaries Share Indices

May 25 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1430.86	1430.86	1426.88	1429.78	1423.80	1418.26	1412.83	1412.81
FT-SE Eurotrack 200	1463.72	1451.72	1452.45	1444.68	1438.93	1432.95	1439.90	1430.34

	May 24	May 23	May 20	May 19	May 18
FT-SE Eurotrack 100	1435.77	1446.42	1458.87	1468.18	1478.00
FT-SE Eurotrack 200	1463.90	1468.75	1474.20	1480.47	1488.45

Base 1000 (26/10/90) Highday: 100 - 1436.67; 200 - 1463.72 Lowday: 100 - 1410.88 200 - 1430.06

Insurers were marked down as investors lightened their holdings in preparation for the Ina privatisation, scheduled for the end of June.

Generali fell L1,308 or 2.8 per cent to L45,039, RAS L1,039 or 3.4 per cent to L29,224 and Toro L2,070 or 6.6 per cent to L29,525.

Montedison fell L82 or 5.7 per cent to L1,350 amid speculation that its chemical joint venture with Shell would fail to win European Union approval: the company said that the commission competition authorities were still considering the deal.

Mediobanca gave up another L567 or 3.5 per cent to L15,644 on continuing fears that it could be dragged into police investigations of the background to the Ferruzzi group's debt problems.

ZURICH was lower in line with other markets and with the domestic outlook clouded by worries about interest rates. The SMI index fell 18.9 to 2,673.1.

Holderbank dipped SFr5 to SFr940 after the group said it expected better results this year if economic circumstances remained favourable.

Sandoz finished SFr5 ahead at SFr725, after a day's high of SFr737, after Tuesday's sharp fall which followed news of its agreed bid for Gerber Products in the US.

MADRID dropped 1.8 per cent, the general index losing 6.07 to 330.45 as turnover climbed to Pta34.43bn.

In New York, Natwest Securities announced an upgrading of Telefónica after the stock dropped Pta50 to Pta1,865 in its domestic market.

AMSTERDAM fell in response to the weakness on Wall Street and in domestic and German bond markets. The AEX index dipped 4.78 to 408.50, although price movements tended to be exaggerated by thin trading.

The recently firm Hoogovens led the way down with a Fl 1.90 decline to Fl 70.50 on profit-taking.

Unilever lost Fl 2.90 to a 12 month low of Fl 189 in response to the slower than expected economic recovery and continuing brand battles.

ATHENS tumbled another 5.6 per cent, hitting a year's low for the third consecutive session, with soaring interest rates continuing to drive investors away from equities and into bank to customer repurchase agreements. The general index fell 47.58 to 854.25 in active volume of 2m shares.

James Capel said that with all capital controls now lifted, a drachma devaluation seemed inevitable. "The market would view a devaluation positively and, in the event, we would expect a rebound from these very low levels."

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Nikkei edges up yet again as region wavers

Tokyo

Buying by overseas investors narrowly outpaced large-lot selling by domestic institutions, and the Nikkei index finished marginally higher, gaining ground for the sixth consecutive day, *writes Emiko Terazono in Tokyo.*

The 225 average rose 41.51 to 20,663.63 after a low of 20,509.90 and a high of 20,700.94. Active selling by corporate and financial investors pulled share prices down in the afternoon session, but overseas buying then came in and the index recouped its losses.

Arbitrageurs, who were heavy buyers on Tuesday, retreated to the sidelines as they adjusted their positions ahead of today's last trading session for April settlements. Volume totalled 440m shares against 552m.

The Topix index of all first section stocks rose 2.56 to 1,658.18, and the Nikkei 300 by 0.60 to 303.27. Gainers led losers by 506 to 503 with 173 unchanged and, in London, the ISE/Nikkei 50 index fell 1.94 to 1,358.77.

Traders said that investors were growing cautious in reaction to the recent gains in share prices. However, Mr Jason James, a strategist at James Capel, said that increasing evidence that corporate earnings were now bottoming out was underpinning share prices.

Buying by overseas investors pushed up heavy electricals. Hitachi rose Y20 to Y1,030 and Toshiba gained Y7 to Y803. Consumer electronics shares also rose with Matsushita adding Y60 to Y1,810 and Sony up Y30 to Y5,970. TDK, the video game maker, lost Y90 to Y4,540 on poor profits.

Large capital shipbuilders were also strong on foreign buying. Mitsui Engineering and Shipbuilding rose Y14 to Y373 and Mitsubishi Heavy Industries added Y8 to Y723.

Nippon Telegraph and Telephone saw continued support from bargain hunting after its recent weakness. The stock rose Y25,000 to Y867,000.

Speculative stocks lost ground on profit-taking. Sumitomo Coal Mining fell Y32 to Y948 and Chino fell Y90 to Y1,050.

Non-life insurers lost ground. The industry had been requesting an increase in fire insurance premiums, but it has been hit by the government's decision to freeze all rises in public service rates. Tokio Marine and Fire fell Y10 to Y1,330.

Mining stocks, which had gained in tandem with commodity prices, met profit-taking. Sumitomo Metal Mining fell Y2 to Y942.

In Osaka, the OSE average rose 12.55 to 22,724.04 in volume of 26.3m shares.

Roundup

Sentiment was mixed around the Pacific Rim. Singapore, Kuala Lumpur, Jakarta, Bombay and Colombo were closed for public holidays.

SYDNEY seemed in confused disarray as weakness in the gold, banking and resource sectors left the All Ordinaries index down 26.5, or 1.2 per cent, at 2,105.9.

In the banking sector, down nearly 3 per cent overall, ANZ took the sharpest fall to end 22 cents, or almost 5 per cent lower at A$4.44 although it posted a big jump in half year profits.

The golds sub-index dropped 39.9, or 1.7 per cent to 2,333.4 following weakness in New York bullion overnight, and the resource and commodity sectors followed suit, this time on profit-taking.

MANILA's buyers paused for breath and again and the composite index fell another 22.77 to 2,879.21 although traders said that the mood remained positive.

Turnover fell from 1bn pesos to 762m pesos.

HONG KONG balanced afternoon profit-taking against positive Chinese comments on airport project financing, and the Hang Seng Index rose 31.26 to 9,521.37, well below the day's peak of 9,664.07. Turnover improved from HK$3.97bn to HK$4.59bn.

Jardine Matheson outperformed with a rise of HK$2.50, or 4.2 per cent to HK$62.50 on institutional bargain hunting.

TAIPEI featured strength in electronics as the weighted index staged a weak rebound after seven straight sessions of falls, closing 6.06 higher at 5,775.18 in slow turnover of T$36.22bn.

Reports that the government had agreed gradually to raise the ceiling of foreign equity investment funds to T$20bn from the current US$7.5bn, lifted electronics, a foreign favourite, with ASE up T$2.50 to T$81.50 and Acer T$1.50 better at T$57.

BANGKOK was led higher by the finance and banking sectors, which accounted for over 45 per cent of the business done yesterday as the SET index closed 10.21 higher at 1,348.80 in turnover of Bt7.1bn.

KARACHI closed flat in low volume, the KSE 100 index rising 0.93 to 2,246.61, but Fecto Cement put on Rs1.25 to Rs52.75 on dividend hopes.

SOUTH AFRICA

Golds were weak in low volume, following the overnight pattern in North America and Australia as the sector index shed 46 at 1,949. Industrials rose by a token 23 points to 6,656, but the overall index still ended 32 lower at 5,486.